DOCUMENT RESUME

ED 232 004 CE 036 447

AUTHOR	Bollom, Marv
TITLE	Units of Curriculum in Small Business. The First Edition 1980 Project. Instructor's Manual.
INSTITUTION	Red Wing Area Vocational Technical Inst., MN.
SPONS AGENCY	Minnesota State Dept. of Education, St. Paul. Div. of Vocational and Technical Education.
PUB DATE	Jul 80
NOTE	156p.; Parts of text may not reproduce well.
PUB TYPE	Guides - Classroom Use - Guides (For Teachers) (052)
EDRS PRICE	MF01/PC07 Plus Postage.
DESCRIPTORS	Behavioral Objectives; Bookkeeping; Business; *Business Administration; Course Descriptions; Curriculum Guides; Entrepreneurship; Financial Support; *Human Relations; Learning Activities; Lesson Plans; *Money Management; Postsecondary Education; *Recordkeeping; Records (Forms); *Small Businesses; Tests; *Trade and Industrial Education; Transparencies

ABSTRACT

Designed as a supplement to an existing technical trade or industrial course, this curriculum is a guide for instructors to teach small business management in vocational education classes. It is planned around approximately 30 hours of instruction. Each of the eight instructional units includes the following parts: objectives, transition of units (relationship of this unit to the previous one and the following one), the lesson (attention focuser, key questions, suggested teaching strategies, and information in outline form), a summary, individual self-study suggestions, a list of necessary resources, references, and an appendix that contains handouts, worksheets, transparencies, a lesson plan format, an instructor evaluation form, and/or an evaluation instrument for students. Unit topics are: (1) the importance of studying small business management; (2) types of businesses--sole proprietorships, partnerships, corporations; (3) the major elements of management; (4) business records and recordkeeping; (5) financial statements--the balance sheet and the profit and loss statement; (6) cash flow/cash management; (7) loan proposals and financing; and (8) human relations in business. (YLB)

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ED232004

THE FIRST EDITION 1980 PROJECT

UNITS OF
CURRICULUM IN SMALL BUSINESS

INSTRUCTOR'S MANUAL

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July 1980

CE036447

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ACKNOWLEDGMENTS

The work of many have helped in preparing this curriculum. The developer and project staff wish to give credit to some people who have made special contributions to this effort:

> Edward Dunn, Robert Herling, Chuck Munson and Pat Enz, Administrative staff of the Red Wing Vocational-Technical Institute, who encouraged the project and offered assistance in its' development.

The instructors who assisted the curriculum development during its' initial stage:

A special thanks to Mr. Ted Saunders, Dakota County Area Vocational-Technical for his assistance and review of curriculum objectives in development.

The secretarial staff: Lori Johnson, LouAnn Kruger and Carolee Freeman.

To the developers of the Small Business, Management Curriculum, Year I, Second Edition Volume III, 1980, as its' design and structure were used.

A current thanks to the Minnesota State Department of Education for making this project possible: Jerry Schmehl

The UNITS OF SMALL BUSINESS were performed with funds from the Minnesota State Department of Education, Division of Vocational-Technical Education. Submitted by: Research Coordinating Unit for Vocational Education pusuant to a grant from the U.S. Office of Education, Department of Health, Education and Welfare. However, the opinions expressed herein do not necessarily reflect the position or policy of the Minnesota State Department of Education or the U.S. Office of Education, and no official endorsement by the U.S. Office of Education should be inferred.

The original project was developed pursuant
to Project No. 20-CD-80/MN-80-94-482-1-20-CD-133
in cooperation with the Curriculum Development Unit.

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Funded by the U.S. Office of Education
under - Units of Small Business
Public Law 90-576
1980

ASSURANCES

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In compliance with regulations, policies, guidelines and requirements including OMB Circular, No. A-95 and FMCs 74-4 and 74-7; as they relate to the application, acceptance and use of Federal Funds for the Federally assisted project.

This project is subject to all provisions of the Vocational Education Act of 1963, as amended by Title II of the Education Amendments of 1976, Public Law 94-482, and the Minnesota State Plan for Vocational-Technical Education.

PREFACE

The purpose of this curriculum is to outline a program of small business instruction for students in most vocational education classes. It is intended to serve as a guide for instructors to teach their students small business management. It will help their students face future employment or future ownership problems. It will help them increase the effectiveness of their employment or ownership and current education.

This curriculum is intended to serve as a guide for instructors of Vocational programs.

"Careful preparation will help students derive the most benefit from your presentation of business education and give you more confidence in yourself as the business instructor."

"You and this curriculum" is a "train-the-instructor" units developed to aid you in your role as an instructor of business, to help you do an effective job, and to assist you in obtaining desired results. Upon completion of the study of this curriculum, you should be able to perform the following tasks:

> *Given the business education curriculum, you will be able to arrange a meaningful, well-organized addition to your current training.
>
> *Given a curriculum to present, you will be able to prepare a plan for presenting it.
>
> *Given a well-prepared lesson plan, you will be able to communicate the subject to others.
>
> *Given a subject to present, you will be able to select and develop effective communication aids for it.

You must be enthusiastic about teaching business education. If you aren't enthusiastic, the group won't be either. If you want to motivate and inspire, you should display enthusiasm. You do this by the interest you take in your role as a business instructor. Your care in preparation, your skill in presenting the material, and the interest you show will create enthusiasm among students. Enthusiasm is contagious! As Henry Ford Said, "With it there is accomplishment. Without it, there are only alibis."

INTRODUCTION TO UNITS IN SMALL BUSINESS

This curriculum is designed to be used as a compliment to, or in conjunction with any technical trade or industrial course. The units, modified by a knowledgeable person (instructor) to fit a specific program, will make the small business addition most effective. With this knowledge and preparation the students chances of success in his/her employment or ownership in business can be greatly enhanced.

Here are some startling statistics:

- Over 93% of all small businesses fail!
- Each year on a national scale, of the approximately 440,000 new businesses that are started more than 220,000 will fail with 2 years!
- Only 20% of all new businesses will still be operational after 5 years!

These figures present a forecast that can be most disturbing to potential employees and owner/operators, as well as the local, state, and national economies.

The curriculum is planned around approximately 30 hours of instruction. THis instruction can be presented in any one of three modes.

a) One hour per day for 30 days.
b) 2 - 3 hours per day, or
c) 6 hours per day for 5 days

Options (a) or (b) are recommended as the most effective ways of presenting this instruction.

The manner in which this information is presented to students is the real key to it's potential success. It must be presented in a positive and engaging way so that students will recognize the relevancy of the program and become actively involved. This can be promoted by thoroughly explaining the development and sequence of the units and constantly relating the small business aspect to the vocational training and intended occupation of the student.

It may be important to make students aware of the fact that 98% of all businesses in the U.S. are small businesses; 45% of the business volume in the U.S. is done by small firms; and 56% of the total working force is employed in small businesses.

The student, the future employee and business owner have need for business management education. The complexities of managing a small business have increased in much greater proportion than the size of the business. In most cases, small business operators must manage with closer margins of profit than in the past. Students must understand the unique aspects of the business-end of their trade or service skills. They need to have adequate knowledge to understand management decisions pertaining to his/her employment.

This business education curriculum is an attempt to fill a needed void that students can use now and in their future careers.

ELEMENTS OF A BUSINESS MANAGEMENT EDUCATION PROGRAM FOR VOCATIONAL-TECHNICAL STUDENTS

Students who work for a small business or own a small business will operate in an increasingly competitive economy and need to know as much as possible about their employers or their own business. Various factors have been identified in small businesses which after evaluation can help students gain knowledge of business practices and understand the principles by which they function. This instructional program for students should not be presented in an oversimplified manner. Instead, it should be presented, in addition to skill training, as the 'beginning' or outline of what students going into business will need.

Again, this curriculum is not intended as a complete program of business management instruction, but rather a supplement to existing programs.

BUSINESS MANAGEMENT

The topics suggested in the lessons for business management are presented in a sequence to assist the student in evaluating a potential employer, assisting an employer, or analyzing the potential of a self-owned business.

This management education program is simply the starting point in the overall evaluation of small businesses and an overall learning experience added to the technical education.

Developing an understanding of basic economic and management principles is an important activity in management instruction. Many of the units of instruction in this curriculum contain examples of economic principles, even though they may not be identified as such in the text. Instructors should be alert to capitalize on all opportunities to inform the students of the principles as they apply to the technical trade or occupation they are studying..

INSTRUCTION IN BUSINESS TECHNOLOGY

Due to time limitations, this curriculum has not included a study of business technology, ie: advertising, salesmanship, merchandising, promotion, etc. It does not mean that the study of business technology is not an important part of a small business. In fact, this lack of business training in business technologies is a major factor in business failures. Technology training can be acquired through library materials, through consultation with suppliers, through media people, bankers, accountants, etc. and through a series of classes and seminars held at schools, universities and professional private programs.

This business management curriculum will be a good foundation. The educational activities should help the student with the first step, that of building up a stockpile of information about their business or trade; and information on where to get additional assistance and information upon which they can base judgements at a later time.

UTILIZING THE CURRICULUM

Each unit of instruction includes the following parts:

Part I Objectives
Part II Transition of Units
Part III Lesson
Part IV Summary
Part V Individual Self Study
Part VI Resources
Part VII References
Part VIII Appendixes

The following explanation of how to use the curriculum will generally apply to each unit.

PART I. OBJECTIVES

The objectives specify under what conditions and to what extent a certain kind of student performance is expected to take place.

PART II. TRANSITION OF UNITS

The transition briefly describes what was covered in the previous unit, the main focus of the current unit and outlines the following unit. The transition is intended to show the continuity between units and the sequence in which the instruction is offered.

PART III. LESSON

Each lesson begins with a suggested attention focuser. Most class members will have their minds on the problems of the day. The instructor needs some means of focusing attention on the topic of the unit.

The lessons include key questions and suggested teaching strategies. The instructor may wish to write the key question on a chalkboard and direct the class activity toward answering the question. The information relevant to the key questions has been presented in outline form and may include definitions, calculations and uses.

PART IV. SUMMARY

A good teacher will summarize the unit at the end of the class session. This suggested summary may be used for that purpose.

PART V. INDIVIDUAL SELF STUDY

Suggestions are made to aid the instructor in planning additional self-study for students.

PART VI. RESOURCES

This part lists the hard and softwares the teacher will find necessary to present the unit.

PART VII. REFERENCES

References are included for the benefit of the instructor to expand his/her knowledge of the materials covered in the unit.

PART VIII. APPENDIXES

Items suggested for use such as handouts, worksheets or transparencies are included in this part.

ELEMENTS OF A BUSINESS MANAGEMENT EDUCATION PROGRAM FOR VOCATIONAL-TECHNICAL STUDENTS

Students who work for a small business or own a small business will operate in an increasingly competitive economy and need to know as much as possible about their employers or their own business. Various factors have been identified in small businesses which after evaluation can help students gain knowledge of business practices and understand the principles by which they function. This instructional program for students should not be presented in an oversimplified manner. Instead, it should be presented, in addition to skill training as the 'beginning' or outline of what students going into business will need.

Again, this curriculum is not intended as a complete program of business management instruction, but rather a supplement to existing programs.

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UNIT 1

Why it is important to study Small Business Management

UNIT I

WHY IT IS IMPORTANT TO STUDY SMALL BUSINESS MANAGEMENT (STIMULATING AN INTEREST IN BUSINESS EDUCATION)

PART I. OBJECTIVES

A. Given an opportunity to look at 'where people work'. and compare elements relating to specific vocational-technical training, the student will be able to identify his/her need in relationship to business education.

B. Given the statistics of small business failures and the reasons for failure, the student will be able to plot strategies to avoid potential problems.

C. Following a discussion of business education, the students will identify the need for and use of obtaining additional business education.

D. After seeing "Where People Work," the why of "Business Failures," and "When Businesses Fail," and an opportunity for class discussion, the student will be able to define small business problems.

E. Following a discussion of the strengths and weaknesses of small businesses, the student will be able to distinguish alternatives to small businesses' problems.

F. Following a discussion of the students present status, the students will be able to project how they intend to meet the personal employment or potential business ownership goals.

PART II. TRANSITION OF UNITS

The previous chapter was designed for the instructor's benefit as an introduction to the units of small business and to the overall purpose and need of business education.

This unit will lay the foundation, purpose and need for teaching business education. This is accomplished by discussion of where people work and how the units apply or add to the students vocational education; plus leading them towards the achievement of their employment or potential ownership goals.

The following unit explores the different types (legal structures) and characteristics of businesses.

PART III. LESSON

ATTENTION FOCUSER

Ask the class "Where do people work in the U.S.?" Write their responses on the blackboard. The responses can be listed under one of these headings - farms, big business, government, small business. Ask each student to estimate what percent of employees work in each category. Give the class members enough time to discuss the wide variety of estimates and then put on the overhead projector "Where People Work." (Appendix 1) Discuss each classification and the direction of employment trends in each category.

KEY QUESTION 1. How does business education relate to your vocational-technical studies?

Answer A. "Don't bother me with this information, I'll never use this information." "Business is too complicated." "Lawyers, bankers, accountants, the wealthy are really the only ones that understand business." "The rich get richer." "The small guy doesn't have a chance." These statements represent an attitude that is all too common for many students. They make conclusions on the basis of generalizations.

Answer B: Vocational technical students may well wonder why their training program would include a course in business management. "Surely" they say, "we did not come to this institute to learn to be business prople." This may be often repeated and frequently heard complaint of the beginning student, but this criticism will begin to fade away as the student makes progress in his or her studies and begins to realize how important knowledge of the business world is on all levels of the trained vocational student - be it exploring self-employment or working for a business. Many a student or potential business operator is dissuaded from studying or entering small business. Too often we find that we have already made up our minds before we examine specific details. However, it can be easily shown that understanding how business operates and the functions of management in both small and large business in not highly complicated nor technical.

Answer C:

Here are some interesting facts about small business. Ninety eight percent of all businesses in the U.S. are small business. Forty-five percent of total business volume is done by small firms and fifty-six percent of our working force is employed in small enterprise. (Appendix 2). As these figures indicate the small firm is very significant and important. As the figures show that small business firms are the #1 employers in America.

SUGGESTED TEACHING STRATEGY

Write key question 1 on the blackboard. Encourage student responses and list their answers on the blackboard. After discussion the instructor should cover answers A & B. Use appendix 2, in transparency form, to provide facts about answer C.

Key Question 2: Is it possible that business failures have a direct affect on you?

A. Small business failures have been reported so often and sometimes so dramatically, that many people believe that the small business operator and their employees do not have a chance in the highly competitive economy of today's market place.

B. Each year, on the national scale, we witness about 440,000 new business starts. Each year 400,000 fail; over a ninety percent failure rate. More than 220,000 of the 440,000 new businesses are doomed to fail within two years. (Appendix 3). Only twenty percent will still be going - concerns after five years.*

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*The most comprehensive statistics pertaining to failure are collected by Dunn and Bradstreet, a business firm devoted to analysis and rating of the credit standing of other firms.

C. The relationship of the failure rate to the age of business firms can be seen in Appendix 4, a - b - c which shows the high rate of mortality among firms in business five years or less. It should also be noted that large businesses also have a large failure rate. Recent examples: W. T. Grant, Robert Hall, U. S. Steel Operations in Duluth, etc. It should be quite obvious that the best educated, finest-trained student skills are worthless unless the trade or skill is used. Training and education of a skill or trade does not go for enough; the last six feet of the training mile is being hired or hiring an employee.

D. It should be noted that the last figures on Appendix 4, a - b - c are perhaps most significant. Close to twenty percent of the firms fail after being in business over ten years. It is not only continual business problems, but a struggle to survive.
The special threat of failure to the small firm is further evident in the relative failure rate among various business areas. Retailing - particularly small-scale lines of retailing-shows a relatively higher rate of failure than other areas.
The costs of business failure are tremendous. In most cases, it means a loss of a persons' life-time savings! The small businessmens' loss of capital is augmented by the losses of business creditors. It causes injurious psychological effects. Individuals, who fail in business suffer a real blow to their self-esteem. The businesses they started with enthusiasm and high expectations of success have "gone under". Most unsuccessful business

people simply relapse into employee status for the balance of their lives. This may be the most serious loss, as most of these "failures" had the intelligence and "what's needed" to be a success!

The number of jobs available in the community is reduced. Hundreds of thousands of trained, skilled employees and their families are affected by the failure of small business.

E. A major cause of unemployment, job relocations, family movement to other cities, is failure of businesses.

F. When a small business fails, it rarely causes headlines in the local newspapers, or dramatic reaction or action. Rather, small businesses seem to 'fizzle out'; sort of quietly disappears.

SUGGESTED TEACHING STRATEGY

Use Appendix's thru 4 a, b, c in transparency form, to provide the outline for discussion of this Key Question. You might wish to refer to the "Introduction" in this curriculum to gain more background from which to present this key question.

Key Question 3: What are the measures of business size?

Answer A. The most widely used measures of size are those considered in this unit: (1) number of employees and (2) dollar sales volume.

B. Qualitative criteria can also be used in defining or identifying a small business. Probably the most fundamental definition of a small business is the one proposed by the Committee for Economic Development. *According to the C.E.D., a business enterprise is small if it possesses two or more of the following characteristics:

1. Independent management (usually the managers are also owners.)
2. Owner-supplied capital.
3. Mainly local area of operations.
4. Relatively small size within industry.

C. In order to further evaluate the small business, you have to understand what small is - the different measures used to evaluate the position of small business. 95 percent of all operating firms have fewer than twenty employees; fewer than one percent have more than a hundred employees; 99 percent employ fewer than fifty people! In other words, most American businesses are small, independently owned and operated establishments. This situation differs little from the characteristics of business anywhere else in the world. Though the giant corporations and "mass production" firms loom important in terms of total productivity, it is small business that constitutes the backbone of the world's economy. Yet, these big operators, these giant corporations, are the exceptions, not the rule. Only slightly more than one-tenth of one percent employ over 2500 people.

The American economy consists of over 240 million people whose material needs and wants are satisfied by approximately twelve million business enterprises! Many of these are internationally famous businesses. Our roster of multi-billion dollar corporations, including such names as General Motors, Standard Oil, United States Steel, General Electric and DuPont is the envy of the world. Even the smallest firm on Fortune's list of the 500 largest industrial corporations had an annual sales volume in 1976 of over 240 million. The world, including the people of the U.S., thinks the United States is a land of industrial giants; as a nation of "big operators." Fact is, it's a country of little guys that makes and keeps America moving.

SUGGESTED TEACHING STRATEGY

A discussion about the size of businesses will lead the students into a talking about different local businesses, businesses they might have worked for, are working for, who parents work for, or most important the size of business they would like to work for.

Write on the board a list of potential businesses that your students suggest that they might be employed by after completing their vocational training. Ask the question? "What do we know about the number of employees and estimated sales volume. What do we know about the business end of these businesses?

FOOTNOTE: Unless otherwise indicated, the statistics cited in this unit are taken from, or derived from the most recent data compiled by the U.S. Department of Commerce, as reported in the various volumes of the Bureau of the Census and in the monthly Survey of Current Business.

**Meeting the Special Problems of Small Business (Report of the Committee for Economic Development, New York, June, 1947) Page 14.

Key Question 4. Why do Businesses Fail?

A. It can be established that the vast majority of business failures are the result of mismanagement or uninformed managment - untrained management.

B. Competition from large business or many small businesses RARELY cause another business to fail.

C. There are relatively few cases of fraud, neglect, and disaster that cause business failure.

D. Consider, for example, Dun & Bradstreets' analysis of reasons for failures that occurred in 1976, as shown on Appendix 4.

E. The underlying cause of business failures - untrained management - is often obscured by such "surface" causes as lack of capital (cash), poor location, and premature expansions.

F. Some symptoms of impending business failure are: 1. Deterioration of working capital position 2) Declining sales, 3) Declining profits, and 4) Increasing debts.

G. Many small businessmen are either ill-prepared or not prepared at all for operating their enterprises and the great demand on their time makes it difficult for even the competent enterprises to manage their businesses effectively.

H. The two major reasons which have prompted many unqualified persons to undertake business ownership to hastily are: 1) A sudden desire for independence, 2) The appearance of an unexpected business opportunity that would be lost if not taken advantage of at once.

I. A major problem characteristic of small business is the importance of time to the owner-manager. With so many essential duties to perform or to supervise, and only the same amount of time available as is used by each of a number of persons in big business, the number of hours in a day is usually the most serious problem of the typical small business man.

Once the business is in operation, the great demands made on the owner-manager leads to the problem of lack of free time, in which to study and improve his business methods through self-development. If he does take the time, after attending to all essential business duties, he is likely to be so tired and worried as to experience difficulty in learning effectively. The solution, at least for the propective small business man, is adequate preparation in advance or a willingness to get outside assistance.

It has often been said that the chief problem of the independent businessman is his independence - one less likely to seek advice and assistance from those of greater experience and know-how. Often the biggest problem is to get the independent to appreciate his need for outside assistance, and then to be willing and able to take the time to profit by it.

J. The following suggestions deserve consideration:

*1. Begin now to learn the business (end) of your trade or learned skill. Take supplementary training related to that business you will be employed by or own.

2. Make a habit of seeking advice and discussing your ideas with others. Talk particularly with successful alumni enterprisers and seek their advice.

3. Practice organizing your work (job, studies, and so forth) so as to have "free" time for self-improvement activities, ie; night classes, seminars and workshops.

4. As a vocational student take, when possible, courses such as accounting, oral and written communication, economics, consumer behavior and if available, courses in small business management.

5. The extensive failure data creates an erroneous impression about the likelihood of failure. Chances for success are "excellent" with management training. One should be encouraged to consider business ownership because of its' bright prospects, rather than to shun it because of fear of failure.

6. An employee of a small business should be studying that business - helping that business succeed - in addition to ones normal work duties. An employee of a business (with some business knowledge and training) can protect his job by offering suggestions in management skills. It has been shown that those small business owner-operators with business management training can reverse the failure percentage of 90% to over 90% successful business operations.*

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*Information of a nationwide pole of Small Business Management Instructors, 6-22-80, Duluth National Small Business Management Instructor Conference.

SUGGESTED TEACHING STRATEGY

Write on the blackboard Key Question 4 and put the students responses on the board. After discussion, put on the overhead projector, use again Appendix 4, a, b, c highlighting extremely high rates of failure during the first two years. Also point out it's a continual struggle to survive as indicated by the percentage of failure during the tenth year and after. Use Appendix 5, showing why? Use information in points G, H, and I either by writing on the blackboard or copy and use as a handout for student study. You should do one or the other for J items 1 thru 7. The use of handouts will enable the students to have material for further study and reference.

Key Question 5: What are the strengths and weaknesses of small business?

A. You have the freedom of opportunity to fail or to succeed. Few barriers have been placed before the individual or individuals aspiring to business ownership in our free enterprise system.

B. A strength of small business is that big businesses must and does depend on the little guys. Over 50 percent of retail sales are done by small business. Small businesses act as suppliers for large firms. General Motors, for example, purchases goods and services from more than 37,000 small businesses. Over 3/4 of these small firms employ fewer than fifty employees. In addition, General Motors depends upon some 14,000 dealerships and 128,000 other retail outfits.

C. Some studies of patent records show that the majority of twentieth century innovations, such as air conditioning, automatic transmissions and insulin, originated with the individual or the small business. The presence of millions (approximately 12 million) of small businesses tends to stimulate progress by providing many centers of initiative and sources of innovation.

D. Small firms can compete vigorously in many areas. Indeed, their smallness gives them a number of competitive strengths. When exploited skillfully, these strengths enable them to "carry the attack" to larger firms.

1. The small firms have knowledge of customers' needs and wants. The small business can act or react immediately to market changes-much faster than big business.
2. A small business can develop an expertise in providing needed goods and services. To a greater or lesser degree, the small owner specializes.
3. The flexibility in management is perhaps small businesses' greatest strength: Rapid change has become a way of life. Product-life cycles become shorter and new products and services appear with greater frequency. There are less customers and competitors move more quickly. As a result, change is a fact of life for business firms of all sizes. However, a difference exists in the small firms' adaptability. For example: The small firm with a lower investment in fixed assets (buildings, machinery, and equipment) can resist the snowballing of overhead costs that plaque many large firms. And as conditions change, it is in a much better

position to make decisions quickly. The inflexibility of huge organizations is illustrated in a performance of Sears, Roebuck and Co.:

> "Sears" biggest problem of all, however, continues to be its ponderous size; especially in inventories. And there is no easy solution to that. It's like the difference between a 747 and a Piper Cub."

SUGGESTED TEACHING STRATEGY

The instructor should keep the above information related to his or her related vocational training skill or trade. This can be done with a series of discussion questions. For example:

1. Explain the contribution that small businesses in your trade, skill or business has made to our industry?
2. If all small businesses in our field of __________ in some way stopped doing business today, what would the impact be on big business or the consumer? Why?
3. In what sense are most small business firms satellites to big business? Explain.
4. What would be the diverse management skills ideally desirable in our type of business and trade?

PART IV SUMMARY.

A. Over half of the American work force is employed by small business. Of the total number of businesses, the large majority are small firms. The small firms account for 45 percent of the sales volume in the U.S.

Big business depends a great deal on small business for distribution of its' products and service support.

B. Every year the thousands of men and women, most of them already employed by existing concerns venture forth with their accumulated job know-how, cash, and judgement in search of the income and independence they believe to be associated with going into business for ones self. However, statistics show that a large number of these fledgling, small businesses are shortlived. The trouble usually lies in the new owner-managers' limited preparation, lack of business experience, and failure to apply the easily understandable principles and methods of a business operation.

The fact that many of these businesses which fail were founded by persons possessing unusual mechanical and technical aptitudes, manual skills, and artistic or other talents is significant. The point here is that business management calls for a wide variety of talents far beyond those of the person performing or in charge of any single business function. Many persons who know their jobs do not know the business end of which those jobs are a part.

C. Although it might be important, a formal college education has never been a requisite of a successful business. The fact is college graduates tend to fail at or about the same rate as others. Yet recognition, through MANAGEMENT TRAINING - of the many facets of business and willingness to learn enough to understand the functional parts of business, can aid in assuring success.

D. Although many reasons are given for business failures, they usually represent the occasions for the failure rather than the causes. Had management been efficient, it would have anticipated and controlled them. Businesses fail for very simple, readily understandable reasons - largely failure to do the logical, sensible thing. Basically, requirements for business success are the same in all businesses regardless of size. Larger businesses usually have developed methods that can be successfully adopted by the small operator.

E. Some of the rewards of business ownership are a satisfying way of life, a feeling of independence, and opportunities for profit and security.

F. Successful business owners are individualistic in viewpoint and often enter business as an escape from the organizational constraints of large firms.

G. For success as a small business owner, the individual needs a drive for accomplishment and enthusiasm. An adequate background of Management Training and experience is also desirable for business owners.

PART V INDIVIDUAL SELF STUDY.

The additional information about the "business end" of particular trades and services (skills) can be enhanced by further study. If business data about the students' trade or skill is to be meaningful, the student should investigate further. Special attention should be given to the business end when observing or visiting shops of his or her trade or skill.

Current trade journals, news articles, and supplies can be sources for additional business study. Finding "related" business educational material is a key to motivation and understanding by students.

PART VI RESOURCES.

Chalkboard, chalk and eraser.

Overhead projector.

Handouts.

Supply of line paper and pencils.

Transparencies: Appendix

1. Where do people work
2. Facts about small business
3. Failure rate figures
4. a) Retail failure rates
   b) Service firms failure rates
   c) Overall failure rates
5. Causes of business failures

PART VII REFERENCES

A. How to Organize and Operate A Small Business, Fifth Edition; Clifford M. Baumbach, Kenneth Lawyer and Pearce C. Kelley.

B. Small Business Management: Southwestern G24 Publishing Company by Broom, Longenicher, Cincinnati, Ohio.

C. Curriculum, Volume II Small Business Management Program 1980, Year I, Second Edition.

Other References:

D. Small Business Administration, Small Business Management Aids, Washington D.C.: U.S. Government Printing Office.

E. The Business Failure Record: 1978 (New York: Dun & Bradstreet, Inc. 1979): PP. 7, 12, 13.

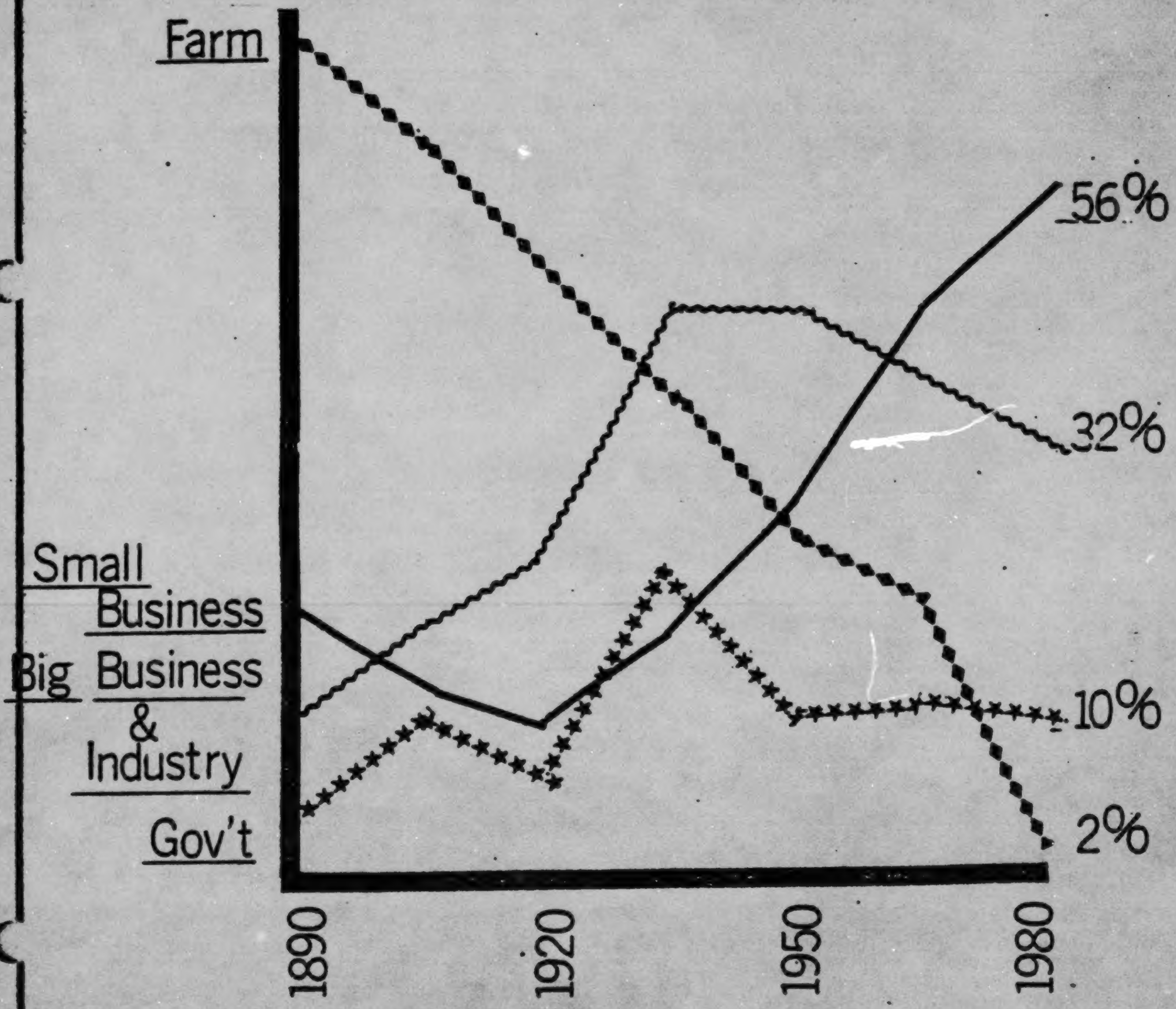
F. U.S. Bureau of the Census, Population Estimates and Projections, Estimates of the Population of Counties and Metropolitan Areas: July 11, 1974 and 1975 (Washington: U.S. Government Printing Office, 1977) Table 1.

PART VIII APPENDIXES

1. Where do People Work?
2. Facts about Small Business.
3. Failure Figures on Small Businesses.
4. a) Number of Small Business Failures in Retail Firms.
   b) Number of Small Business Failures in Service Firms.
   c) Failure Rate Overall.
5. Causes of Business Failures.

Where Do People Work?

Labor Force



SMALL BUSINESS

99% Of All Businesses Are Small Business

56% Of Employed Work For Small Business

47% Of All Business $ales Are Small Business

440,000

Small
Businesses **START**
EACH YEAR

400,000

Small
Businesses **CLOSE**
EACH YEAR

OVER

91%

FAIL

THE BUSINESS FAILURE RECORD

RETAIL

FAILURE YEAR	%
1	1.1
2	12.8
3	18.5
4	16.5
5	11.0
Total 5yrs or Less	59.9
6	9.5
7	5.7
8	4.1
9	2.7
10	2.7
Over 10 Years	15.5

Appendix 4 a
pg. 24

THE BUSINESS FAILURE RECORD

SERVICE

Failure Year	%
1	1.5
2	9.9
3	15.8
4	13.1
5	10.0
Total 5yrs or Less	50.3
6	9.1
7	8.4
8	6.3
9	3.8
10	3.7
Over 10 Years	18.4

Appendix 4 b
pg. 25

THE BUSINESS FAILURE RECORD

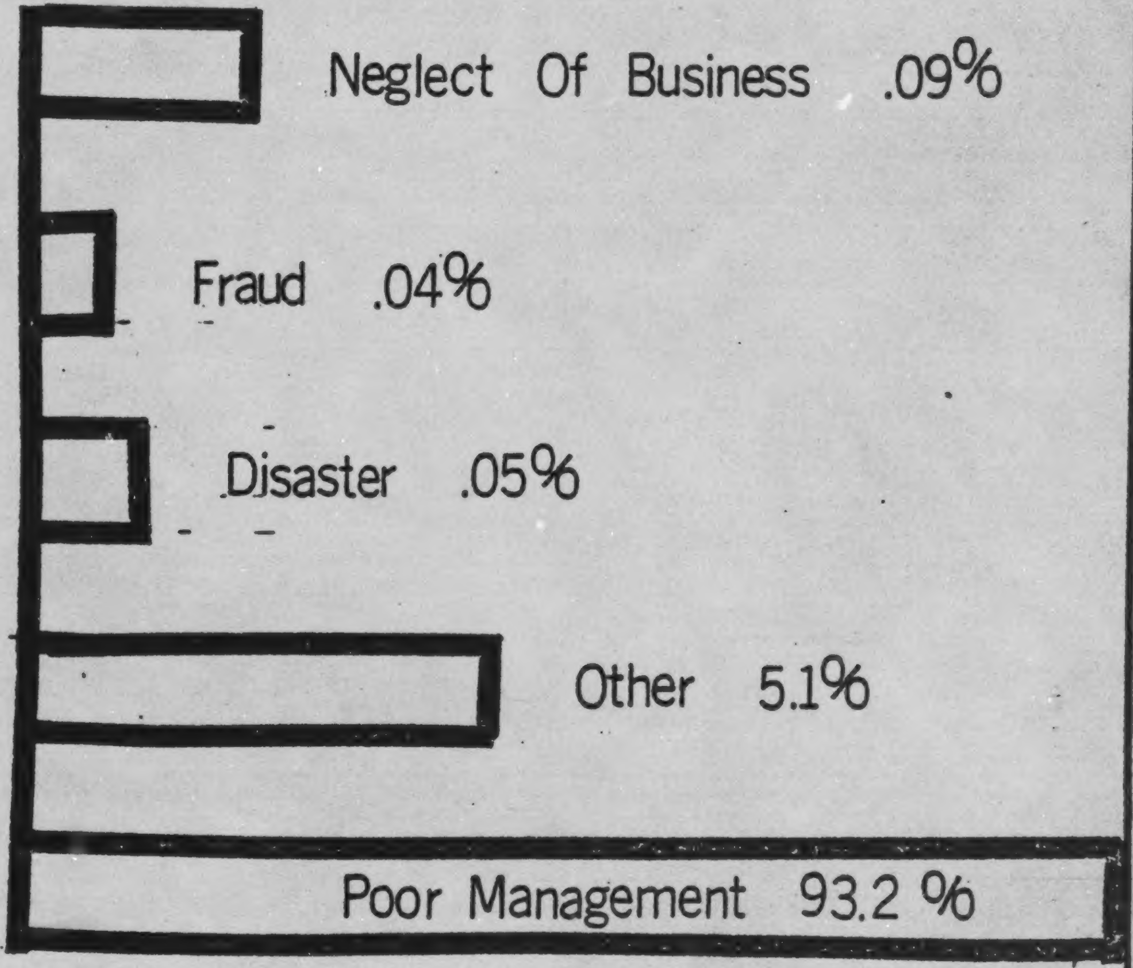
OVERALL

Failure Year	%
1	1.1
2	10.0
3	16.1
4	14.8
5	11.1
Total 5yrs or Less	53.1
6	9.5
7	6.7
8	5.2
9	3.2
10	3.2
Over 10 Years	20.2

Appendix 4 c

pg. 26

Causes Of Business Failures



LESSON PLAN

Unit ____________________

Teacher ____________________

Date ____________________

Week ____________________

(begun) (hoves)

Objectives:

A.

B.

C.

Activities:

Step 1:

Step 2:

Step 3:

Step 4:

Step 5:

Step 6:

Step 7:

Step 8:

Step 9:

Step 10:

INSTRUCTOR EVALUATION

Mode of Instruction:

_____ Individual   _____ Small Group   _____ Large Group

Method of Instruction:

_____ Lecture
_____ Discussion
_____ Questioning
_____ Guest Speaker
_____ Field Trip
_____ Case Study
_____ Other

Instructional Aids adequate?

Recommended changes:

Evaluation (test) Instrument adequate?

Passed   # Failed

Instructor Comments on Unit:

EVALUATION INSTRUMENT FOR STUDENTS

NAME____________________

1. Who is the second largest employer in the United States?

_________Big Business _________Farmers

_________Government _________Small Business

2. Who does the highest business volume in sales in the United States?

_________Big Business _________Farmers

_________Government _________Small Business

3. What percent of new small businesses that start each year will be going concerns after five years:

_________50% _________25% _________90% _________10%

4. What are the three most widely used measures of business size?

_______________ _______________ _______________

5. What percent of all business firms have less than twenty (20) employees?

_______________%

6. Why do businesses fail? List 5 reasons.

1)____

2)____

3)____

4)____

5)____

7. List 4 things that could be done to reduce business failures:

1. ____

2. ____

3. ____

4. ____

8. Indicate whether the following statements are true or false by circling T or F.

a. Farmers are unimportant T F

b. Government is the second largest employer T F

c. Most employees will be affected by business failures T F

d. The costs of business failure are tremendous T F

e. The underlying cause of business failures is untrained management T F

f. Management training is difficult, hard to obtain T F

g. Over 90% of businesses fail, with management training over 90% success T F

UNIT 2

Types of businesses–

Sole proprietorships,

partnerships,

corporations,

UNIT II

TYPES OF BUSINESSES

PART I OBJECTIVES.

A. The students will be able to compare and contrast the following types of ownership: Sole Proprietorship, Partnership, and Corporations.

B. The students will be able to list the advantages and disadvantages of the three major forms of business organization.

C. After discussions on the pros and cons of the different types of business structures, the student will be able to analyze a simulated condition and propose the most appropriate structure.

D. The student will be able to efficiently work through the legal paperwork most common in his trade or service.

PART II TRANSITION OF UNITS.

The previous unit dealt with showing a need for having a business curriculum included in a vocational technical training course. It covered the failure record, size, strengths and weaknesses of small business.

This unit will discuss the three major types of business organizations-sole proprietorship, partnership, and corporations, - the characteristics and make-up of these, and the advantages and disadvantages of these.

We have looked at why it is important to study and have an understanding of business. We then looked at the major types of business structures and in the next unit we will deal with the need of knowing what 'management' consists.

UNIT III LESSON

ATTENTION FOCUSER:

Ask each student to write down the companies they have worked for and the type business it was. (Sole proprietorship, partnership, or corporation.) Ask a few students to share their experiences or comments about the different types of business organizations. Discuss very briefly the differences found. Also, show the value of knowing and understanding the different types of business by relating the type of business organization most common in their trade or services.

Key Question 1. Should a firm be a sole proprietorship, partnership, or corporation?

A. Firms usually begin as a sole proprietorship, but later may find it desirable to become partnerships or even to incorporate.

B. There are other types of businesses that are rarely used and account for less than one percent of all business firms. Examples that the students might be familiar with include: 1) co-ops; (corporatives) 2) Limited partnerships 3) business trusts 4) joint ventures. Because they are rarely used these forms are not described in this curriculum.*

C. The relative importance of the different legal forms of organizations varies from one industrial area to another. Appendixes 2-1, 2-2, 2-3 and 2-4, shows the difference. In some service trades, non-corporate forms are more numerous.

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*Anyone having a special interest in such forms should consult an attorney as to their nature and possible usefulness. Libraries are also a source of additional information.

SUGGESTED TEACHING STRATEGY

Using appendixes 2-1 through 2-4 highlight what type of businesses use what legal structure. To make the key question as related as possible to the students field of study - highlight their trade during presentation. Point out that the type business structures (sole proprietorships-partnerships-corporation) are used by all type businesses; be it retail, service, wholesale, or manufacturing.

KEY QUESTION 2 : What is the make-up of the sole proprietorship?
Sole proprietorship is the name given to a business owned and operated by one individual. A sole proprietor has title to all the business assets, subject to the claims of creditors. The sole proprietor owns all of the profits - but also must assume all losses, bear all risks, and pay all debts of the business. By its' very nature, the sole proprietorship is well suited to small scale enterprise.

SUGGESTED TEACHING STRATEGY

Hand a student a dollar bill - Explain that he/she is now in business. No licenses, permits etc. are required (in most cases) - It's just that simple to start a business. The only requirement by law is to keep track - bookkeeping - of your income and the expenses you incurr. The instructor should spend time on making Key Question 2. relate to the particular trade or service he/she is teaching. I.E. what would be needed if a student were to start a business of their own? Or, if they were working for a sole Proprietorship business, what might he/she offer in assistance, advice, etc.

KEY QUESTION 3 : What's the make-up of the 'PARTNERSHIP'?

A partnership is a voluntary "association" of two or more persons to carry on as co-owners of a business for profit. Because of its' voluntary nature, a partnership is quickly set-up without the legal requirements of corporate organization. A partnership pools the managerial talents and cash of those joining together as business partners.

Aside from legal aspects, however, partnership formation deserves serious study. Partnerships have particular problems - partners may find over a period of time that they are not compatible.

Among other disadvantages of the partnership are:

1. Each partner is liable for all debts incurred by the business!
2. Each partner is responsible for the action of all other partners that creates an obligation for the business.
3. The partnership is automatically dissolved by the death or voluntary withdrawal of a partner.
4. Profits must be shared among the partners.

Arguments in favor of the partnership include the following:

1. "Two heads are better than one." Two viewpoints, although they clash, (and in a partnership they often do) may result in a desirable compromise.
2. Personal abilities are complimented. The salesman and the bookkeeper, with different personalities and abilities, may succeed together when neither could alone.
3. Added capital (cash) is made available by combining the assets of two or more partners and less borrowing is necessary. Usually, the main reasons a partnership is formed is this need for additional cash.

SUGGESTED TEACHING STRATEGY

Have two students each put one dollar on a desk and have them declare (state) we are partners and have started a business - point out that again it is that simple to start a partnership - again - no license. permits. etc. needed in most cases. Stress. however. the extreme importance of having a legal written agreement between the partners. The instructor might expand (and keep related to the students vocational trade skill) discussion and activity and student participation by: Combine 2 or more students into small groups, have students form partnerships. Who can offer what to the partnership? Who will do what etc? Discuss as group the problems that came up.

Key Question 4. What's the nature of the corporation?

The corporation is a legal form of organization made possible by state laws under which a CHARTER, or authorization to operate as a business enity, is granted. Since the corporation is a creation of the law, it it impersonal and exists without reference to the particular individuals who may share its' ownership and direct its' activities.

Advantages may be summarized as follows:

1. Number one and most important - legal liability of owners or stockholders for suits of personal injury or other activities connected with operating the business is usually always eliminated. (The individuals (owners) protected from law suits - normally. If, the business goes bankrupt, the owners personally are protected from losses - normally.

2. Ownership in a corporation is easily transferred merely by sale or exchange of stock.
3. Management of the business may be concentrated even though ownership is widespread.

A corporation has certain disadvantages, however:

1. Its' activities are limited to those specifically granted in the charter. A firm incorporated to engage in repair and sales of musical instruments could not legally handle car repair, sales, or engage in manufacturing as an example.
2. More paperwork for reports, records, taxation and other purposes to each state in which it does business.
3. Its' geographical area of operations is limited to the state granting its' charter until permission is secured from each state in which it desires to operate.
4. The most undesirable feature - the double tax dividends. What that means is: 1) the profits of a corporation are taxed. Plus, taxed again when the owners receive their share of the profits (dividends). 2) The owners and dividends to personal income and thus personal income taxed).

What is a small business corporation - popularly known as a "Subchapter S" Corporation?

When forming a corporation, the individuals starting the corporation may apply for the "TAX-OPTION" which, if approved, would make the corporation a corporation which pays no income tax. The corporate earnings being taxed as "partnership" or "individual" income to the stockholders. Thus, the double tax on dividends is avoided. What this means is: The profits (or losses) of the corporation are added directly to the individual owners personal income in addition to his/her personal salary.

In order to exercise this tax option, however, the corporation must have no more than ten stockholders. A second requirement is that no more than twenty percent of the corporation income can be derived from investments (dividends, interest, rent, capital gains, etc.).

"Every coin has two sides," so the saying goes. Eighty percent of the eligible small business corporations have not elected to excercise the option of choosing "Subchapter S", most likely because of the lower maximum tax rate on corporate income (48 percent, as opposed to a tax rate of 70 percent on personal income). Where the tax-option is earning very high substantial profits, "the stockholders may be taxed at a rate appreciably higher than the maximum corporate rate."

SUGGESTED TEACHING STRATEGY

The instructor should point out that because it sounds quote "so official" business sounding that many decide against incorporation. In almost all cases a lawyer must be retrained. Lawyer fees normally run from $400.00 to $700.00 - corporation formation charges. Suggest that students should know what form of business they are employed by; sole proprietorship, partnership - if a corporation - a sub chapter S? Suggest to students that the most common reason for incorporation is usually the liability factor. The instructor might have copies of key question 4 as a handout for students future study.

Footnote: Most state income tax laws do not recognize the small business corporations, and they thus, tax the small business corporation on its income. Minnesota does at this time.

PART IV. SUMMARY:

1. Practically all businesses are organized as sole proprietorships, partnerships, or corporations. The minor forms of organization are only rarely used.
2. In sole proprietorships, the one individual, who is sole owner, risks the loss of personal investment but owns all the profits.
3. A partnership is a voluntary association of two or more persons as co-owners. The partnership agreement should be written form and should include all significant elements in the relationship.
4. A corporation while owned by its' stockholders, is a legal entity in its' own right. One major advantage of the corporate form of organization is the limited liability of stockholders, since the corporation itself is liable for its' debt.
5. Although there is no one best way to organize a business, under all conditions, great care should be exercised during studying forms of business organization, the form of business organization is closely related to the problems of financing but very often also affects the financial liability of participants. It also affects EMPLOYEES, taxation, regulation, and various management practices.

PART V. INDIVIDUAL SELF-STUDY.

Some class members might like to get opinions from a variety of different sources. If possible students should ask or investigate businesses in their trade or technical skill area for the type of business organization these businesses are in and why.

Bankers, accountants, and lawyers will usually give students their ideas or opinions on the various types of business organizations.

Local libraries are a source for additional study and information about business structure.

PART VI RESOURCES

Overhead Projector

Chalkboard

Handouts

Transparencies 2-1, 2-2, 2-3, 2-4.

PART VII REFERENCES

1. How to Organize and Operate a Small Business; Clifford M. Baumbach, Kenneth Lawyer, Pearce C. Kelly - Prentice Hall 5th Edition.
2. Small Business Management; Broom, Longenicker, 5th Edition, Southwestern.

PART VIII APPENDIXES

2-1 Retail

2-2 Service

2-3 Wholesale

2-3 Manufacturing

UNIT 2

EVALUATION INSTRUMENT

1. What are the three major types of legal structures of businesses?

_______________ _______________ _______________

2. The State and Federal Laws state that the one requirement of all businesses is to ______________________________?

3. Name the major disadvantage of a partnership form (structure) of business______________________________.

4. What are two arguments in favor of the partnership.

____

____

5. Corporations are made possible by Federal State Laws - (circle one or the other).

6. 80% of the eligible small business corporations have not elected to exercise the option of choosing Subchapter "S". Why_______________

____

7. Each type of business has to choose a legal structure. T F

8. There is one best way to organize a business T F

9. A sole proprietorship form of business can have more than one owner. T F

10. The number of partners in a partnership business is limited to 10. T F

11.. A partnership is a voluntary "association" of more than two people to carry on as co-owners. T F

12. In a partnership each partner is liable for ALL debts incurred by the business. T F

13. A disadvantage of a partnership is each partner is responsible for all partners that creates an obligation for the business. T F T F

14. In a partnership type business with many (over 5) partners; because one partner decides to get out of the partnership it automatically dissolves the entire business. T F

15. There is a tax advantage to be a sub chapter "S" Corporation T F

16. There is a tax disadvantage to individuals owning stock in a sub chapter "S" Corporation. T F

17. The most important reason for incorporation of a business is protection from liability (business incurred debts.) T F

18. The best form of business is the sole proprietorship T F

19. Corporations are much more complicated and harder to operate. T F

SERVICE

RELATIVE IMPORTANCE OF DIFFERENT FORMS OF LEGAL ORGANIZATION IN U.S. SERVICE TRADES

FORM OF ORGANIZATION	PERCENT OF ESTABLISHMENT	PERCENT OF SALES
SOLE PROPRIETORSHIPS	68.1	18.5
PARTNERSHIP	6.9	10.8
CORPORATIONS	16.5	64.4
OTHER LEGAL FORMS	8.5	6.3

RETAIL

RELATIVE IMPORTANCE OF DIFFERENT FORMS OF LEGAL ORGANIZATION IN U.S. RETAIL TRADE

FORM OF ORGANIZATION	PERCENT OF ESTABLISHMENT	PERCENT OF SALES
SOLE PROPRIETORSHIPS	51.6	15.3
PARTNERSHIP	7.8	5.2
CORPORATIONS	29.6	74.7
OTHER LEGAL FORMS	10.9	4.8

WHOLESALE

PERCENT OF RECEIPTS IN U.S. WHOLESALE TRADE BY FORM OF LEGAL ORGANIZATION

FORM OF ORGANIZATION	PERCENT OF ESTABLISHMENTS	PERCENT OF SALES
SOLE PROPRIETORSHIPS	12.0	2.6
PARTNERSHIPS	5.3	2.4
CORPORATIONS	74.3	92.2
OTHER LEGAL FORMS	8.4	2.8

ESTABLISHMENTS AND SALES

PERCENT OF ESTABLISHMENTS AND SALES IN U.S. MANUFACTORING PLANTS BY FORM OF LEGAL ORGANIZATION

FORM OF ORGANIZATION	PERCENT OF ESTABLISHMENTS	PERCENT OF SALES
SOLE PROPRIETORSHIPS	13.3	0.8
PARTNERSHIPS	5.5	0.7
CORPORATIONS	72.7	98.0
OTHER LEGAL FORMS	8.5	0.5

LESSON PLAN

Unit ____________________

Teacher ____________________

Date ____________________

Week ____________________

(begun) (hoves)

Objectives:

A.

B.

C.

Activities:

Step 1:

Step 2:

Step 3:

Step 4:

Step 5:

Step 6:

Step 7:

Step 8:

Step 9:

Step 10:

INSTRUCTOR EVALUATION

Mode of Instruction:

_____ Individual _____ Small Group _____ Large Group

Method of Instruction:

_____ Lecture	_____ Field Trip
_____ Discussion	_____ Case Study
_____ Questioning	_____ Other
_____ Guest Speaker	

Instructional Aids adequate?

Recommended changes:

Evaluation (test) Instrument adequate?

# Passed # Failed

Instructor Comments on Unit:

UNIT 3

Management–

What does it require?

UNIT 3

MANAGEMENT - WHAT DOES IT REQUIRE?

PART I OBJECTIVES

A. The student will be able to identify and define the major elements of management.

B. The student will be able to identify the critical areas of management knowledge needed by a business owner - manager and employees.

PART II TRANSITION OF UNITS

The previous unit covered the different types of business organizations. The advantages and disadvantages were discussed and studied.

This unit concentrates on the aspects of management and shows how this knowledge is needed in the decision making process.

The following unit deals with business language and the importance and use of facts and information.

PART III LESSON

ATTENTION FOCUSER:

Have each student write a definition of management as he/she understands it. Ask a few students to share their definitions with the class on a voluntary basis. Discuss very briefly the definitions.

KEY QUESTION 1. MANAGEMENT - WHAT DOES IT REQUIRE?

A. Management consists of a series of decisions. Management is the effective utilization of labor, materials, capital, and equipment. To use them effectively involves the basic functions of management, which may be listed as 1) planning, 2) organizing, 3) staffing, 4) directing, and 5) controlling. This list summarizes the responsibility of a manager and sets forth these responsibilities in logical sequence which must be followed.

B. To function effectively, a business requires leadership and decision making. MANAGERS - OWNERS - EMPLOYEES MUST POSSESS MORE THAN CRAFTSMANSHIP OR SALESMANSHIP UNLESS THEY LIMIT THEMSELVES TO WORKING FOR VERY large companies or tiny one-person businesses.

C. Management consists of all activities undertaken to secure the accomplishment of work. Good management applies equally to small and large businesses. Hence, the small business owner must perform the same general functions as the executives in large firms.

D. A manager constantly faces the necessity of making decisions. Virtually every managerial activity involves a choice among alternatives, thereby requiring a decision by the manager. The manager should have a healthy respect for factual date and utilize them as extensively as possible.

E. The wide range of business problems in the Basic Functions of businesses imply widely varying information needs for their effective solution. In view of this fact, date collection and methods of analysis are directly related to effective decision making.

SUGGESTED TEACHING STRATEGY

The instructor should point out that the cause of most business failures is lack of management training. Management training is a *process of learning to make decisions from available facts and information. Stress that learning management skills is NOT complicated, but rather simple to learn. EDUCATION for some unknown reason has failed to teach* *management* *skills at all levels, be it high school, college, or vocational-technical level. This curriculum is an attempt to fill that void. To study 'management' is to study the different* *basic* *functions**; i.e. planning, organizing, staffing. The instructor may want to copy A through E as a handout for further study.*

KEY QUESTION 2 PLANNING - How important is it in the business world?

A. The first of the basic functions of management is the weakest area of most business people.

B. If a business has good management planning the need to make decisions is minimized.

C. Planning is decision making on a future coarse of actions. It is primarily the responsibility of the owner-manager.

Planning in business is concerned with following:

1. Determination of company objectives.
2. Formulation of policies, programs, and procedures designed for attainment of company objectives.
3. Performance standards to reach managements' short and long range budgets.
4. Long-range development of the companys' line of products, services, and processes.

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1. See Courtney C. Brown, "Ideas and Trends" Why Executives Should Wear One-Hat," Business Week, No. 2347 (September 7, 1974), Pg. 12 directing, controlling, and learning how to obtain factual information to assist in the decision making process.

Certain procedural steps involved in managerial planning are:

1. Recognition of the problems involved.
2. Collection and analysis of pertinent facts.
3. Tentative decision among the possible alternatives.
4. Testing, by trial and error, tentative plans with modification into a final satisfactory plan.
5. Let all concerned know (announce) the plan.

D. Specific and concrete action to implement a plan is necessary. All members of a management team (be a two person business) must participate in planning if desired results are to be obtained.

E. Planning (an extreme weakness of most small business people) is very essential even for the smallest (one or two people) type businesses. ALL businesses need effective planning.

SUGGESTED TEACHING STRATEGY

Instructors should keep the information related to their particular trade or service. This can be done by the instructor listing on the board, planning needs suggested by the students for a business they might be working for or owning. The instructor might also put on overhead items 1 through 4 and 1 through 5 of item C. Again items A through E might be used as a handout for future study.

KEY QUESTION 3. What does organizing involve?

A. Organizing (the second of the basic functions) involves the assignment of functions and jobs to the different parts (divisional components) and to employees - WHO'S GOING TO DO WHAT - delegation of authority. Organizing the relationships to be observed by all members of the business.

B. A formal statement of a business structure ordinarily takes the form of an organizational chart.

C. For the typical small business, the management group may, and probably will, consist of very few persons. It will grow as the small business itself grows. Three examples of organizational charts in Appendixes 3-1, 3-2, and 3-3.

D. A study of the organizational chart serves tc clarify organizational arrangements that may otherwise be hazy in the minds of employees.

SUGGESTED TEACHING STRATEGY

Have the students prepare organizational charts for a small, medium, and large business in their field or trade skill. The instructor might also copy the Appendixes 3-1, 3-2, and 3-3 as handouts. Use Appendixes 3-1, 3-2, and 3-3 to highlight the example of being organized. Have students create a chart for a business that would relate to the type business they most likely will be going to work for in their field.

Key Question 4. Staffing refers to what?

A. Staffing is the selection and development of personnel who make up the business organization. The best techniques of selection and development should be used in order to get a work team that works effectively.

B. Development of personnel is often a neglected aspect of hiring in small firms. (Employees should be aware of this and question potential employers about their development (training) of employees.) For most small businesses, training programs are prohibitively expensive and impractical - but achievement of their objectives still should be sought. Training is intended to develop the skills that each employee possesses so that the person next higher up may be relieved of lesser responsibilities and can spend time on additional duties. Development of employees changes the specialist into a well-rounded employee and provides for managerial succession.

C. In a small business it is most difficult to provide for management succession because the owner-operator may personally be the top and only management. It is vitally important in the small firm that provision is made for managerial succession - continuity of business is an issue for the small business. There is no such issue in a large company.

SUGGESTED TEACHING STRATEGY

Discuss what happens when the staffing of a business does not include training of someone to assist or know-how to make decisions. For example: what if the manager of a small firm gets killed in an automobile accident. The instructor may know of a business that is related to their training or in their field that could be used as an example of - what if? - and what should be done to solve potential succession problems.

Key Question 5. What is involved in directing?

A. The directing function involves several activities whose purpose is to achieve the businesses' objectives and build an organization that will be better than the average business.

B. Directing a business requires giving orders, supervising, leading, motivating, and communicating.

1. Supervision is concerned with giving orders, training, and discipline of the work force (even if it is a one or two person business.
2. Leadership (Leading) behavior: To inspire and influence others to give maximum effort to obtain business goals. The leader (owners-managers) may find certain techniques helpful for getting the job done. Among these are:
    a. Be a good listener.
    b. Be considerate of others.
    c. Use suggestions and explain the reasons for the decisions reached.
    d. Criticize and reprimand in private, but praise promptly and publicly.
    e. Find the most effective type of motivation.
    f. Solicit suggestions and assistance.
    g. Develop decision making abilities in others in the business.
    h. Let others (employees) know where they stand.
    i. Expect and put up with some "griping".
    j. Admit ones' own mistakes promptly.
    k. Delegate work to others.
3. Motivating others and ones' self is critical to any business success. Most people respond to a clear challenge and take pride in accomplishment. Real loyalty depends upon pride in ones'

job, in the firms' product or service, and upon a personal sense of belonging - of "being on the team".

4. Communicating with employees and customers is a necessary part of the directing function. Good communication depends upon a quick transfer of all facts and upon being a good listener.

SUGGESTED TEACHING STRATEGY

Items a through k might be put on transparency form. This could bring discussion and interest in student participation. ie how does one put up with "griping"? etc.

Key Question 6. How does one control a business?

A. Controlling involves setting standards and evaluation of operating results, followed by prompt action when results are not what is expected. Control is required in areas of sales, costs, profits, output, quality, labor turnover, employee relations, and analysis of financial transaction. In very small businesses, costs and performance standards may not be formally determined, and the budget may not always be reduced to writing but it should. Nevertheless, the efficient owner - manager will know what cost and performance should be, will keep track of actual results, and will take actions - whenever results vary from what they should be.

SUGGESTED TEACHING STRATEGY

Controlling a classroom of students and controlling a business operation has many commonalties, i.e., setting goals, preparing lesson plans, evaluating results, and taking action when needed - controlling. The instructor should be able to relate to students - control.

Key Question 7. Are there variations in how to apply the different management funtions?

A. The functions of management discussed above are applicable to any size business, to all levels of management, and to all the operational activities of a business.

B. No function of management varies much or importance with business size. Small business planning is as important and necessary as it is for big business. The functions of organizing and staffing may vary somewhat in nature and scope. Directing is required in every business. Finally, control is as essential and tools of control as available to small businesses as to billion dollar corporations.

C. In very small plants, stores, and service firms organizational subdivisions are simply nonexistent. In such a case, management is one-individual or partnership in character, with one or maybe two persons responsible for all areas of management.

SUGGESTED TEACHING STRATEGY

The instructor should have 5 hats with the labels of the 5 functions of management, PLANNING, ORGANIZING, STAFFING, DIRECTING, AND CONTROLLING. As the instructor discusses the absolute necessity of all the areas of management - all equally important, switch hats, and point out that switching hats is exactly what has to be done. In a small business the owners performance of these management functions calls for ability to lead and inspire other people - including himself. The failure rate figures point to the fact that most small businesses did not take the time to learn - MANAGEMENT.

Key Question 8. How does one obtain outside management assistance?

A. In carrying out their managerial functions, managers of small firms are often less effective than they should be. Often, they have problems they themselves cannot solve. They should recognize that seeking outside advice is not an admission of failure, but rather a logical move to strengthen one's management abilities. The management problems of small firms are fully as perplexing as are the problems of large corporations.

B. The sources of management assistance given here are by no means exhaustive. There are numerous, less obvious sources of management knowledge and approaches to seeking needed help. For example, owner-manager may increase their own skills by consulting current owners of a like business, public and university libraries, attending evening Vo-Techs and colleges, or considering suggestions of friends and customers.

OTHER SOURCES: Additional sources of management assistance include;

1. Small Business Administration.
2. Management Consultants.
3. Accountants.
4. Bankers.
5. Attorneys.
6. Suppliers and equipment manufacturers.
7. Vocational-Technical instructors.
8. University professors and research bureaus.
9. Trade associations.
10. Market research agencies.
11. Advertising agencies.
12. Local credit bureaus.
13. Chambers of commerce.
14. Private research organizations.
15. Economic Development division State Department.

SUGGESTED TEACHING STRATEGY

Have the students research and find any and all available management assistance sources, if applicable. Use the sample of colleges and Vo-techs as a place a person goes to obtain information, trade or skill. Management training is needed and must be sought by business owners/operators! Potential project would be to have students investigate 'management' information sources for their trade or service.

PART IV. SUMMARY

1. Management consists of all activities to accomplish useful work. The general functions of management include planning, organizing, staffing, directing, and controlling. The planning function is concerned with the putting together the company objectives, policies, programs, and procedures. Management functions apply to all sizes of businesses, all levels of management, and all areas of business activity. Management assistance is available from many different sources.

PART V. INDIVIDUAL SELF STUDY

Students should observe the managements procedures in his/her field of training. Read and study of reference materials. They should discuss with instructor specific references that would be beneficial.

PART VI. RESOURCES

Overhead projector	Handouts
chalkboard, chalk and eraser	Supply of lined paper and pencils

PART VII. REFERENCES

5th Edition - Small Business Management - Broom/Longenecker - Southwestern.

STUDENT EVALUATION

1. Management is a series of ______________________________.

2. Management is the effective use of ______________, __________,
______________________, ______________________________.

3. The 5 basic functions of management are:
   1. ______________ 2.______________ 3. ______________
   4. ______________ 5.______________

4. Planning is decision making on a ______________coarse of action.

5. Organizing is delegation of ______________________________.

6. Directing is ______________________________________.

7. List (8) eight sources of management assistance.

______________ ______________ ______________

______________ ______________ ______________

______________ ______________

TRUE OR FALSE

8. Management is the main course of business failures. T F

9. Managers/owners of a business must possess more than craftmanship or salesmanship. T F

10. Planning in a business is not necessary in some very small/service type businesses. T F

11. Who's going to do what is a directing function of management. T F

12. Staffing means to hire only - not training. T F

13. Directing means leading. T F

14. Communicating with employees and customers is a necessary part of the directing function. T F

15. One controls a business by owning all the stock of a company. T F

LESSON PLAN

Unit ________________________ Teacher ____________________

Date ____________________

Week ____________________

(begun) (hoves)

Objectives:

A.

B.

C.

Activities:

Step 1:

Step 2:

Step 3:

Step 4:

Step 5:

Step 6:

Step 7:

Step 8:

Step 9:

Step 10:

INSTRUCTOR EVALUATION

Mode of Instruction:

_____ Individual _____ Small Group _____ Large Group

Method of Instruction:

_____ Lecture
_____ Discussion
_____ Questioning
_____ Guest Speaker
_____ Field Trip
_____ Case Study
_____ Other

Instructional Aids adequate?

Recommended changes:

Evaluation (test) Instrument adequate?

# Passed # Failed

Instructor Comments on Unit:

UNIT 4

Records–

The Language of Business

UNIT 4

RECORDS - THE LANGUAGE OF BUSINESS

Part I. Objectives

A. The student will be able to describe how record-keeping and other accumulated data are used in business records.

B. The student will be able to state legal requirements for businesses as published in government regulations.

C. The students will be able to select the major and support records needed to maintain good business records.

D. The student will be able to establish a systematic procedure of keeping business records.

Part II. Transition of Units

The previous unit dealt with Management, the process of making decisions, the need for wearing the different 'hats'- with learned knowledge of planning, directing, staffing, organizing, and controlling a business, and also where to find assistance.

This unit will discuss the principal vehicle used to make decisions aimed at solving problems of a business. A record-keeping system gives business owners-managers the tool to accumulate necessary financial data concerning their business. This unit will deal with the need of a systematic approach to recording business transactions, and a mention of other control type records that may further assist business owners in evaluating their businesses.

The following unit will discuss the results of bookkeeping, Financial Statements, the Balance Sheet and Profit & Loss Statement.

Part III. Lesson

Attention Focuser

Using SBA film (or video tape) "The Heartbeat of a Business", the absolute need of a 'good' set of record-keeping books and utilizing the records to assist in management decision making will be highlighted. After discussion of the film be sure to attempt to relate it to the type of trade or service the instructor is teaching. Hold a brief discussion on the experiences class members have had with record-keeping.

Key Question:

1. How do you use business records and what information do you require from records?
   - A. A Basis for Management Decisions: Any time that you get involved in planning, budgets, or changing the nature of a business, you will need records of past accomplishments - yours, his/hers, or others in a related similar business so that you know where you are starting from.
   - B. Historic Records: Your books tell you where you have been and will give you a basis for comparing specific time periods in the past.
   - C. Creditor Requirements: A bank or loan guaranteeing agency, such as the Small Business Administration, may require periodic reports to determine how one is doing and whether one is worthy of credit or continued credit.
   - D. Supplier: Or franchise holders may require you to maintain specific records to justify lines of credit, commission payments, etc.

SUGGESTED TEACHING STRATEGY

Use a blank transparency or chalkboard to develop A, B, C, and D from above. Get these four main points written for students to see and then briefly hold a class discussion to expand each point.

Key Question: What type of records are required by governmental agencies?

Governmental Requirements: Federal, state, and local governments have the right to subpeona your records and may even padlock your doors until you can prove what you are up to. The I.R.S. say "Everyone engaged in a business is required to maintain records that will enable them to prepare complete and accurate returns and insure that they pay only their proper tax." The law does not require any particular kind of records. You may choose any system that is suited to the purpose and nature of your business that will clearly reflect income on the basis of an annual (yearly) accounting period. Regardless of your record-keeping system, your permanent books of accounts or records (including inventories) must clearly establish not only your gross income, but also your deductions and credits. This means you must maintain in addition to your permanent books of accounts or records such other records and data as may be required to support the entries on your records and tax or information returns. Paid bills, cancelled checks, etc., that substantiate entries in your records should be filed in an orderly manner and stored in a safe place.

The important fact to remember is that the burden of proof is on you to prove that you are innocent of suspected wrong-doing or fraud.

SUGGESTED TEACHING STRATEGY:

*Use *I.R.S. Publication #334, Tax Guide for Small Business, (a free publication upon request) to illustrate the governments' official position on keeping records. You may wish to give every student a copy of this publication at this time. It is easy to read and as students read, questions and discussion should be apart of this key question.*

Key Question: What records should be maintained?

1. Major Records
   - A. Sales/Cash Receipts
   - B. Cash Disbursements
   - C. Employee Payroll Records
2. Support Records
   - A. Accounts Receivable (What people owe you).
   - B. Inventory Records
   - C. Bank Reconciliation
   - D. Accounts Payable (What you owe others).
   - E. Depreciation Schedule.
   - F. Long-Term Debt Schedule.

SUGGESTED TEACHING STRATEGY

The instructor should introduce the major types of record keeping books. Have students examine each section of bookkeeping system with an explanation as to what type of business transactions are accumulated in each. The instructor should indicate that these records should be explored in more detail if and when a person starts his/her own business, or while working for a particular business. The support records should be mentioned for information purposes only. An exception to this would be the handling of the cash or bank reconciliation. The instructor should make a point that 90% of businesses that failed did not maintain an adequate bookkeeping system - or how to use the bookkeeping system to assist in making management decisions!

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*I.R.S. Publication #334, Tax Guide for Small Business, 1979 Edition p.p. 5-14.

Key Question 4. What record-keeping systems are available?

1. Single-Entry System
2. Double-Entry System
3. Computer-Ledger Services.

SUGGESTED TEACHING STRATEGY

The instructor should explain the characteristics of the single and double entry systems. At this time, the instructor might poll the class as to the type of record-keeping system they might or might not be familiar with. The instructor should have available various record-keeping systems such as Domes, Ideal, Data Rite, etc. The instructor may be of assistance in helping some class members relate to a system that would work for the trade or service the students are interested in. Or the instructor might like to spend time on having students complete some transactions in a bookkeeping system. The instructor should stress that it is absolutely necessary for owners/operators to understand bookkeeping. (The business end of the business.) Point out bookkeeping is easy to learn.

Part IV. Summary

A. A good record-keeping system should be set up to accumulate the necessary financial data for the management and evaluation of a business.

B. Timely recording, classification, and accuracy are essential for providing meaningful information for operating a business.

C. A record-keeping system should be reviewed often. Changes in your business over a period of time may also require revision in a record-keeping system.

Part V. Individual Self Study.

Review the accounting procedures with a business operator of the type (related) business, trade, or service the student is learning. Check with a local library or accounting teachers on their suggestions and guidance. The student should take additional bookkeeping night classes or study of record-keeping.

Part VI. Resources

Overhead projector
Chalkboard, chalk and eraser
Supply of lineal paper and pencils
Sample of record-keeping systems
IRS publication #334

Part VII. References

I.R.S. Publication #334, Tax Guide for Small Business.

Part VIII. Appendix

A. Major and Support Records.

STUDENT EVALUATION

1. What are four (4) uses of information that bookkeeping can supply?

a.____________________ b.____________________

c. ____________________ d.____________________

2. What are the major records that should be maintained?

a.____________________ b.____________________

c.____________________

3. What are some of the support records kept by businesses?

a.____________________ b.____________________

c.____________________ d.____________________

e.____________________ f.____________________

Complete the following true/false questions by circling the T or F.

1. The IRS has not legal right to check individuals PERSONAL bank account. T F

2. It is not important that owners/operators know how to personally keep records. T F

3. Tax reasons is the single most important purpose of recordkeeping. T F

4. Bookkeeping is hard to understand and learn T F

5. It is necessary to be an accountant or lawyer to completely do the record keeping of a business. T F

6. The IRS requires certain types of bookkeeping systems for certain businesses? T F

7. One reason for business failures is the owner(s) not understanding the need for bookkeeping. T F

8. All bookkeeping requires some complicated knowledge of accounting. T F

9. It is not necessary to provide proof of all entries in all bookkeeping systems. T F

10. A good method for a small business owner might be to let "the wife" do the bookkeeping and the husband "the skilled trade or hard work." T F

LESSON PLAN

Unit ____________________

Teacher ____________________

Date ____________________

Week ____________________

________ (begun) ________ (hoves)

Objectives:

A.

B.

C.

Activities:

Step 1:

Step 2:

Step 3:

Step 4:

Step 5:

Step 6:

Step 7:

Step 8:

Step 9:

Step 10:

INSTRUCTOR EVALUATION

Mode of Instruction:

_____ Individual _____ Small Group _____ Large Group

Method of Instruction:

_____ Lecture
_____ Discussion
_____ Questioning
_____ Guest Speaker

_____ Field Trip
_____ Case Study
_____ Other

Instructional Aids adequate?

Recommended changes:

Evaluation (test) Instrument adequate?

# Passed

# Failed

Instructor Comments on Unit:

UNIT 5

Financial statements–

The balance sheet

the profit and loss statement.

UNIT 5

The Balance Sheet and Profit and Loss Statement - Financial Statements

Part I: Objectives

A. The student will be able to use records and receipts from transactions to produce a financial statement.

B. The student will be able to identify and define the major parts of a balance sheet.

C. The student will be able to list several ways a balance sheet can help the business operator.

D. The student will be able to identify the major parts of a profit and loss statement.

E. The student will be able to list some of the practical applications that can be made of the P/L statement by the business owner-operator.

F. The student will be able to interpret and define business language terminology.

Part II: Transition of Units

The previous unit dealt with record keeping.

This unit deals with the end result of bookeeping - the financial statements, (the balance sheet and profit and loss statement.)

The following unit deals with Cash Flow. The information you learn from the balance sheet and profit and loss unit sets the stage for Cash Flow.

Part III: Lesson

ATTENTION FOCUSER (s)

Ask each student how he/she could do the job they are being trained *for (keep it related) without any tools. Relate this to the idea that as a trade or a service skill needs tools - a business needs its' tools - a financial statement.*

Ask each student to write down how much he or she has in his or her pocket, without looking. Then have them count their money to see if it matches their figures. Relate this to the idea that we don't always know our own value. A balance sheet will give this information to a business.

Ask students to describe briefly what a profit and loss statement means to them. Through questioning develop the theme of a profit and loss statement being a "moving picture". It shows what is happening (ed) in a business compared to a balance sheet being a "snap-shot picture" of a specific moment in the history of a business.

Key Question - What does the balance sheet show?

A. The balance sheet shows what the business owns (called assets). The balance sheet shows what the business owes to others (called liabilities). The balance sheet shows what the difference is between what the business owns (assets) and what the business owes (liabilities). This is a businesses' net worth, sometimes called capital or equity. The balance sheet contains the following:

1. Current Assets - Cash, accounts receivable and inventories are the most common current assets.
2. Fixed Assets - Items used in the business and are not intended to be resold immediately for a profit such as land, buildings, machinery, equipment, and vehicles are a businesses' fixed assets.

3. Total Assets - The sum of the current and fixed assets.
4. Current Liabilities - Debts and bills that must be paid within one year, such as amounts owed to suppliers or short-term loans.
5. Long-term Liabilities - Fixed debts payable over a period of years such as real estate mortgage or an equipment loan.
6. Total Liabilities - The sum of current and long-term liabilities.
7. Net Worth - (capital - equity) - Net worth is the difference between assets and liabilities. This usually is the original investment a person (s) made when starting the business, plus any profit the business has ever made (or minus any losses).
8. Total Net Worth and Total Liabilities - Must equal Total Assets.

SUGGESTED TEACHING STRATEGY

Write Key Question 1 on the chalkboard. Use Appendix A in transparency form and distribute a handout to each student. Ecourage them to write notes in the right hand column to help them remember the items as you discuss them.

Other names for a balance sheet are: Net Worth Statement, Capital Statement, Equity Statement, Asset and Liability Statement. A student should be aware of the different terms (names) for the same thing. One bank or company might use a different name (term) for exactly the same thing. Some of the confusion in understanding bookkeeping and business terms *(language) is this multi-names (terms) for the same thing.*

The formula of accounting is: Assets Minus Liabilities equals Net Worth.

Key Question 2: How is the balance sheet used?

The balance sheet lists the individual items of assets, liabilities, and net worth. The balance sheet shows the financial condition of a business. A balance sheet is used:

1. To measure changes in a business. They can be used to compare totals to show progress or decline over a period of time.
2. To show financial strength. The owners can measure the relative strength and ability to meet payments and pay bills. Bankers will only lend money to a company when their balance sheet shows the ability to repay the loan.
3. As a basis for forecasting. It is difficult to set the future course of a business unless you know where to start.

SUGGESTED TEACHING STRATEGY

Write Question 2. on the chalkboard. Use Appendix b in transparency form to emphasize the point as you discuss the balance sheet.

Key Question 3. What does the profit and loss statement show? The main items on a profit and loss statement are:

1. Total Sales (Income)- Total amount of sales (income), both cash and credit for a period of time.
2. Cost of Goods Sold - This is the actual cost (what you paid for merchandise you sold) of the merchandise suppliers you sold during the period.

3. Total Purchases - The additional stock (merchandise, supplies) you bought during one period.

4. Gross Profit on Sales (income) - Sales minus the cost of goods sold.

5. Less Operating Expenses - These really explain themselves. Every business has expenses such as:

Salaries (Wages) - Insurance - Interest Utilities (heat, etc.) - Office Supplies - Postage Bank Charges - Rent - Advertising - Miscellaneous - Payroll Taxes - Trash Removal etc.

6. Total Operating Expenses - add up all your expense items.

7. Net Profit - Notice the formula here - Sales minus Cost of Goods Sold - Gross Profit. Gross Profit minus Expenses = Net Profit.

SUGGESTED TEACHING STRATEGY

A profit and loss statement is an essential tool of business financial management. It can also be called: income statement, operating statement, statement of income and expense, or monthly summary. Its' main purpose is to show the financial activities of the business over a period of time. It reports the income, expense, and the profit or loss from these activities for the period covered.

Make a transparency and handout of Appendix B *to show the items on a profit and loss statement. Have the students check off each item and make notes as it is discussed. Highlight essential items.*

Key Question 4. What are the uses of a profit and loss statement?

Information on the profit and loss statement is used in many different ways:

1. As a tool for management - When you are interested in:
   A. Profit earned over a period of time.
   B. What expenses are too high.
   C. Comparing your business operations with those of others in the same line of businesses.
   D. A basis for budgeting (forecasting)-(planning).

SUGGESTED TEACHING STRATEGY

Write Key Question 4 on the chalkboard. Use Appendix C in transparency form to illustrate where specific information comes from. Encourage them to make notes in the right hand margin of the hand-out in Key Question 3 to help them remember what the various items mean.

Point out that a financial statement is: A profit and Loss Statement Plus a Balance Sheet.

Part IV: Summary

A. The balance sheets show a complete listing of the assets, liabilities, and net worth at a specific point in time.

B. The balance sheet is a tool for management decision-making.

C. The increase or decrease in Net Worth shown on the balance sheet is the only true indication of how a business is doing.

D. The profit and loss statement shows the profit and loss that results from doing business for a specific period of time.

E. The profit and loss statement provides information for tax returns, helps the banker establish the credit worthiness of a business more effectively.

Part V: Individual Self-Study

Have the students review the lesson. The students should review related statements - balance sheets, profit and loss statements - of businesses they might be working for or possibly own in the future.

Part VI: Resources

Overhead projector

Transparency A

Handout A - copy transparency A

Chalkboard, chalk, and eraser

Transparency B

Handout B - transparency B

Part VII: References

1. Small Business Management: University of Minnesota, Volume 3 - Unites 5 and 6.
2. Small Business Reporter, Bank of America. Understanding Financial Statements, Volume 7, No. 11.
3. Broom H. N. and Longenecker, Justin G., Small Business Mngt., South - Western Publishing Company, 5 Edition, 1979, p.p. 332-333.
4. New York Stock Exchange, Understanding Financial Statements, 1975, p.p. 4-9.

Part VIII: Appendixes

A. Balance Sheet

B. Profit and Loss Statement

STUDENT EVALUATION

Complete the following questions:

1. What does the balance sheet show?

   ____________________ ____________________ ____________________

2. How is the balance sheet used to help operate a business?

   ____

3. What are the main 7 items that show on a Profit and Loss Statement?

   ________________ ________________ ________________

   ________________ ________________ ________________

   ____

4. What are some other names for a balance sheet?

   ________________ ________________ ________________

5. What are some other names for a Profit and Loss Statement?

   _____________ _____________ _____________ _____________

6. What can the Profit and Loss statement show that will help a business operate more efficiently?.

7. What is a financial statement?

   ______________________plus__________________________

True/False - Please circle the correct answer.

1. The number one reason for financial statements is to assist owners in management decisions. T F
2. The number one reason for financial statements is to complete T F
   law requirements. (Tax reasons) T F
3. The Profit and Loss Statement shows 'what you own' and 'What you owe' and what the worth of a company. T F
4. The Balance Sheet shows a complete total sales (income) Total operating expenses and net profit. T F

5. Another name for a balance sheet is: A net worth statement T F

6. Another name for a balance sheet is: An equity or capital statement T F

7. The formula of accounting is: Assets minus liabilities equals net worth. (Assets = what is owned) (Liabilities = What is owed). T F

8. Bankers will not lend money (usually) unless the balance sheet shows that a business can repay. T F

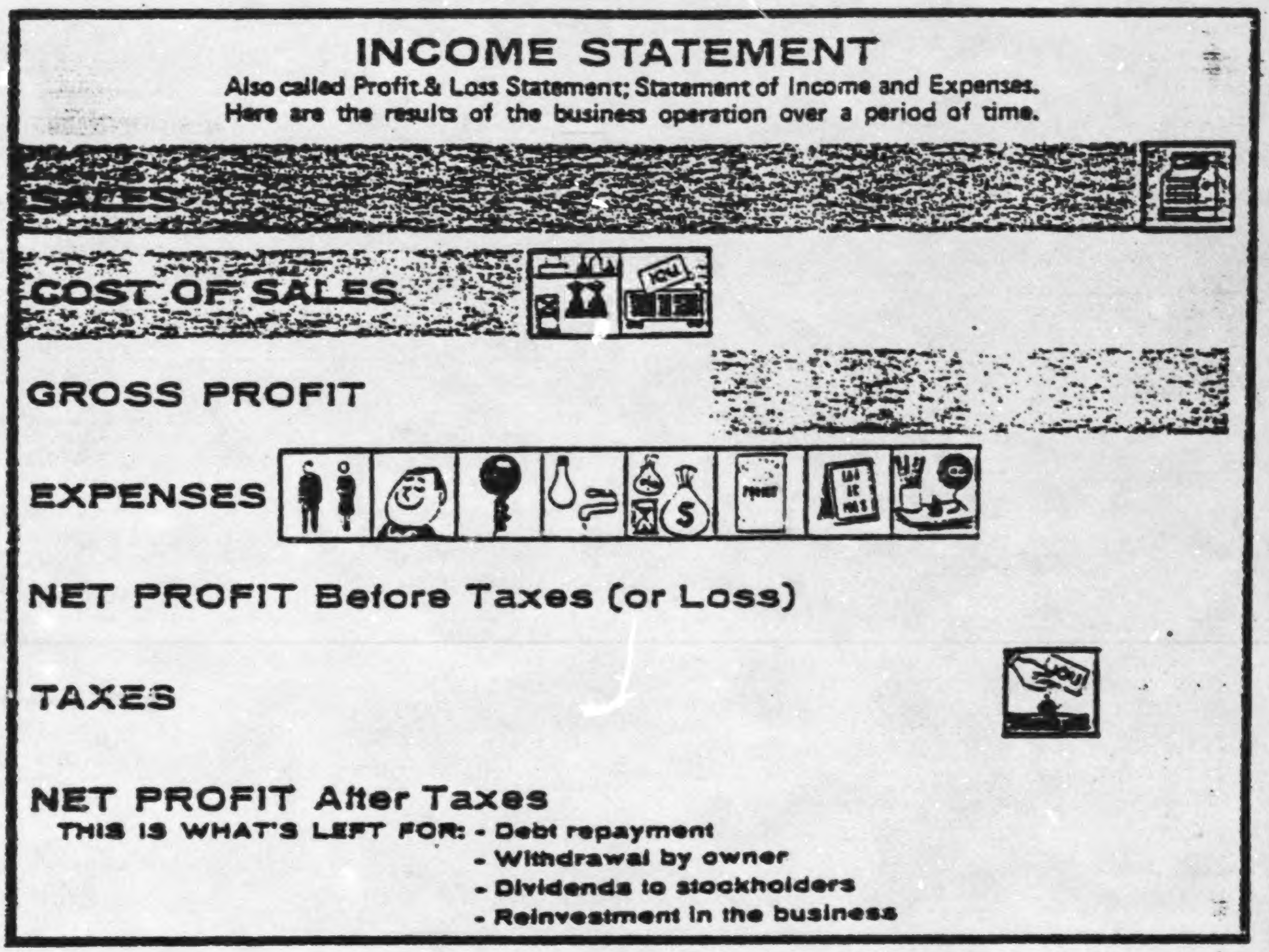
9. Another name for a Profit and Loss Statement is: Operating Statement T F

10. Another name for Income statement is: The Profit & Loss Statement. T F

11. A Profit and Loss Statement shows what expenses are too high. T F

12. It is not vital - absolutely necessary to know how to interpret a financial statement (accountants & lawyers will do this) T F

(PROFIT & LOSS STATEMENT)



INCOME STATEMENT

Also called Profit & Loss Statement; Statement of Income and Expenses.
Here are the results of the business operation over a period of time.

SALES

COST OF SALES

GROSS PROFIT

EXPENSES

NET PROFIT Before Taxes (or Loss)

TAXES

NET PROFIT After Taxes

THIS IS WHAT'S LEFT FOR:
- Debt repayment
- Withdrawal by owner
- Dividends to stockholders
- Reinvestment in the business

BALANCE SHEET

This is how the business looks on a specific date.

ASSETS

What the business itself owns.

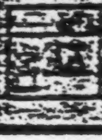
LIABILITIES

This side of the balance sheet shows the claims on the assets—by both creditors and owners of the business. The claims of creditors are debts of the business—the LIABILITIES. The owner's claim is the investment in the business—the NET WORTH.

CURRENT ASSETS: In varying stages of being converted into cash—within the next 12 months.

[illegible] in the bank.

ACCOUNTS RECEIVABLE: What the customers owe the business for merchandise or services they bought.



INVENTORY: [illegible] on hand: [illegible] for sale [illegible] process of production [illegible] material

CURRENT LIABILITIES: Debts owed by the business to be paid within the next 12 months.

NOTES PAYABLE: IOU Bank or Trade Creditors.

ACCOUNTS PAYABLE: IOU Trade & Suppliers.

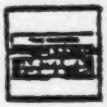
INCOME TAXES: IOU Government.

FIXED ASSETS: Used in the operation of the business. Not intended for resale.

REAL ESTATE: Land and buildings used by the business. Listed at original cost.

LEASEHOLD IMPROVEMENTS: Permanent installations—remodeling or refurbishing of the premises.

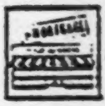
MACHINERY, EQUIPMENT, VEHICLES: Used by the business. Listed at original cost.



Less Accumulated Depreciation: These assets (except land) lose value through wear, tear and age. The business claims this loss of value as an expense of doing business. The running total of this expense is the accumulated depreciation.

NET FIXED ASSETS: Cost of fixed assets less depreciation = Present Value.

LONG-TERM LIABILITIES: Debts owed by the business to be paid beyond the next 12 months.



MORTGAGE: On property.

NET WORTH

Owner's (or stockholders' claim on the assets of the business; the investment; equity in the business.

For Proprietorship or Partnership:

CAPITAL: Owner's original investment plus any profit reinvested in the business.

For Corporation:

CAPITAL STOCK: Value assigned to the original issue of stock by the directors of the corporation. If the stock sold for more than the assigned value, the excess will show as . . . .

SURPLUS PAID IN: The difference between assigned value and selling price of the original issue of stock. (The subsequent selling price of stock does not change assigned value.)

RETAINED EARNINGS: Profits reinvested in the business AFTER paying dividends.

BALANCE SHEET EQUATION:

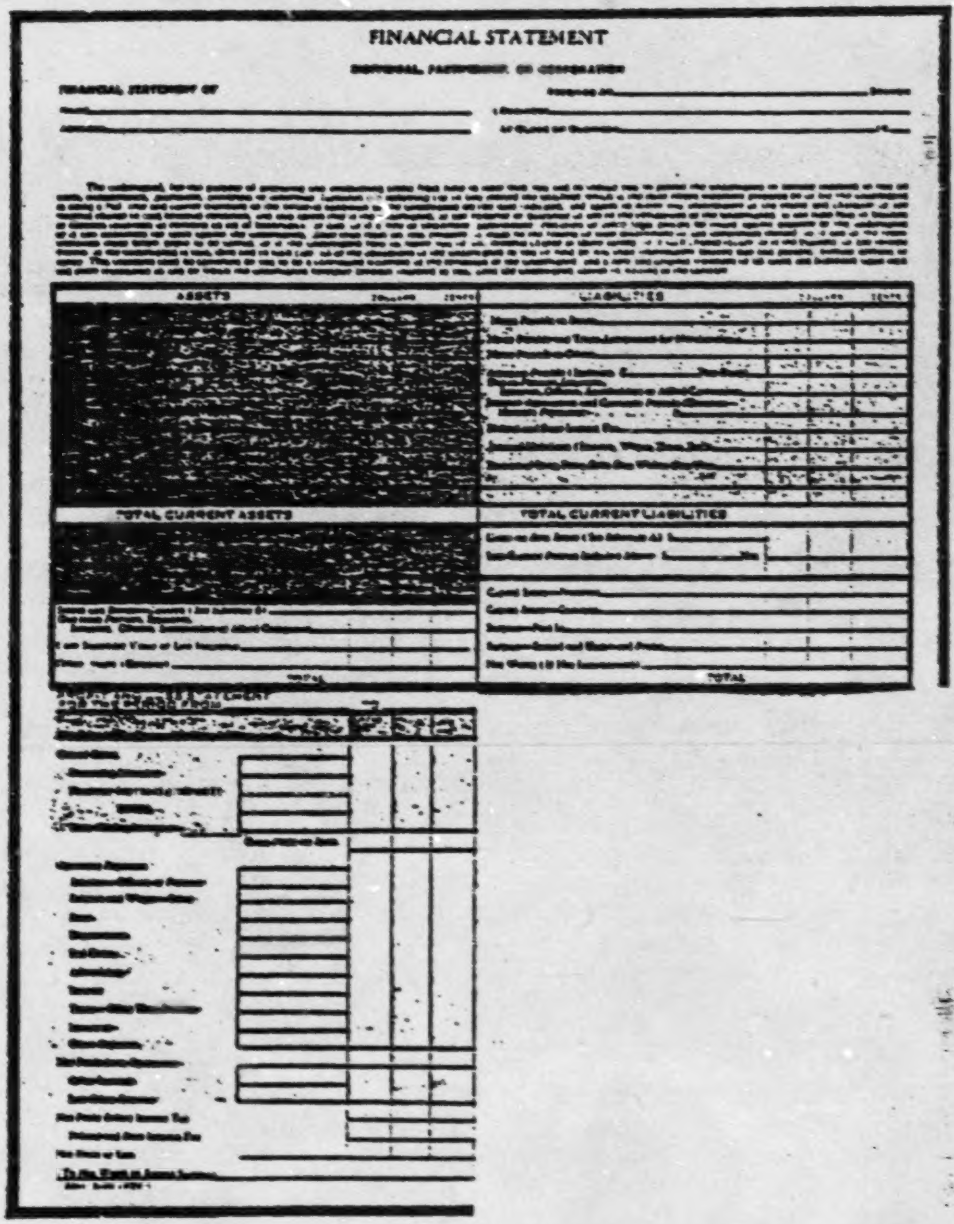
ASSETS = LIABILITIES + NET WORTH

YOUR FINANCIAL STATEMENT

An example of how your own financial statement will look on paper.

THE BALANCE SHEET

PROFIT & LOSS STATEMENT



FINANCIAL STATEMENT

ASSETS

LIABILITIES

TOTAL CURRENT ASSETS

TOTAL CURRENT LIABILITIES

TOTAL

TOTAL

LESSON PLAN

Unit ______________________ Teacher ____________________

Date ____________________

Week ____________________

(begun) (hoves)

Objectives:

A.

B.

C.

Activities:

Step 1:

Step 2:

Step 3:

Step 4:

Step 5:

Step 6:

Step 7:

Step 8:

Step 9:

Step 10:

INSTRUCTOR EVALUATION

Mode of Instruction:

_____ Individual _____ Small Group _____ Large Group

Method of Instruction:

_____ Lecture
_____ Discussion
_____ Questioning
_____ Guest Speaker
_____ Field Trip
_____ Case Study
_____ Other

Instructional Aids adequate?

Recommended changes:

Evaluation (test) Instrument adequate?

# Passed # Failed

Instructor Comments on Unit:

UNIT 6

Cash flow/Cash management

UNIT 6

CASH FLOW/CASH MANAGEMENT

PART I OBJECTIVES

A. The student will be able to account for the flow of cash (money and checks) into and out of the business.

B. The student will be able to identify the main source of initial funding involved in the cash flow of the business.

C. Given a three month forecast of income and expenses and a beginning cash balance, the student will be able to complete a cash flow forecast including the borrowing of short term funds.

D. The student will be able to list reasons for the importance of careful cash control.

PART II. TRANSITION OF UNITS

The previous unit concentrated on the use of the balance sheet and the profit and loss statement to make better business decisions.

Successful operation of a business requires careful planning,so that funds are available in time to meet obligations, thus avoiding cash crisis. This unit will help students to understand that balancing of these cash flows is a major responsibility of the business owner-manager.

The following unit deals with how to obtain a loan. Knowing how to prepare a loan package by preparing financial statements (balance sheet and profit and loss statement) and cash flow projections is a needed business knowledge.

PART III: LESSON

Ask the students to explain why and how businesses are forced out of business (fail) while the businesses' bookkeeping records show in many cases that the business was making substancial profit. The instructor might point out that business failure records show estimates as high as 37½% of the business failures were making a profit when they failed. Why? Have the students respond verbally. A business might not be bankrupt in the sense that its' liabilities exceed its' assets, but neither is it paying its' bills. We are concerned in this unit with understanding this needed management skill.

KEY QUESTION 1: What is the first inflow of money into any business?

A. The first source of money a business normally has is the owners' own investment, supplemented in most cases by other funds, usually a loan from the bank.

B. The sale of the companys' products or services creates the largest inflow of cash into the business.

SUGGESTED TEACHING STRATEGY:

Ask the students for their ideas on sources of cash. List their suggestions on the chalkboard. After sources have been identified, discuss each source, ie: relatives, Small Business Administration, Loan companies, insurance companies, sale of stocks and bonds, venture capital companies, etc. Use Appendix C.

KEY QUESTION 2: What are the most common uses of cash in a business?

1. Purchase of inventories - merchandise for resale or raw materials.
2. Purchase of assets - land, equipment, buildings, vehicles, etc.
3. Operating expenses - supplies, wages, utilities, services, etc.
4. Owners draw - wages.

SUGGESTED TEACHING STRATEGY:

Solicit suggestions from the class and use Appendix C1 & C2 in transparency form to reinforce the above information.

KEY QUESTION 3: Why is good cash management important?

A. Anytime the cash outflow is greater than the cash inflow, then the firm will not be able to pay its' bills when they become due and therefore be insolvent.

B. The failure to pay its' bills on time seriously affects the firms' credit rating and its' ability to obtain additional cash that every growing company or business will need.

C. The firm will not be able to take advantage of cash discounts on its' purchases; thus its' cost of sales will be increased and its' gross margin reduced.

SUGGESTED TEACHING STRATEGY

(Most Small Business Firms Do Not Go Broke Because They Do Not Make a Profit - They Go Broke Because They Run Out of Cash) to highlite a key fact. Discuss items A, B, C, using examples to keep the information related to the trade or service the instructor is teaching.

KEY QUESTION 4: What controls does a business use to manage the cash in a business?

1. Analyze expenses to reduce cost and eliminate waste.
2. Develop good purchasing practices to take advantage of special prices and discounts.
3. Keep good trade credit by negotiating with suppliers for an extension of payment dates.

4. Maintain inventory (supplies) increase or decrease to match sales requirements.
5. Control accounts receivable (what people owe businesses for products or services) by collecting money as soon as possible.
6. Take less cash out of the business.
7. Learn to plan and develop useful cash budgets so that cash will be available to meet all future obligations.

SUGGESTED TEACHING STRATEGY

Use Appendix D (in transparency form) and discuss the effect of these controls on cash flow.

PART IV. SUMMARY

A. Cash in-puts to a business come primarily through the owner's investment, borrowing and the cash from the sale of goods and services.

B. Cash goes out of a business primarily through the purchases of inventory, operating expenses, taxes, and the owners' wages.

C. The timing (planning) of cash in and out to meet the needs is one of several management controls that can be used in cash budgets.

D. It seems incredible that a business firm with rising profits can become bankrupt but it happens, particularly in times of "tight credit."

PART V: FURTHER STUDENT STUDY

Students should complete a three month cash flow projection. All business management and accounting books will have a section on cash management. Each student should do this to increase his/her understanding of the vital importance of cash management.

PART VI: RESOURCES

Chalkboard, chalk and eraser	overhead projector
Transparencies Appendixes A, B, C	Handout Appendixes A, C

PART VII: APPENDIXES

Appendix A - Sources of cash

Appendix B - Use of Cash

Appendix C - Control of cash

PART VIII: REFERENCES

How to Organize and Operate a Small Business; Clifford M. Baumbach, Kenneth Lawyer, 6th Edition Prentice Hall.

LESSON PLAN

Unit ______________________________

Teacher ______________________________

Date ______________________________

Week ______________________________

(begun) (hoves)

Objectives:

A.

B.

C.

Activities:

Step 1:

Step 2:

Step 3:

Step 4:

Step 5:

Step 6:

Step 7:

Step 8:

Step 9:

Step 10:

INSTRUCTOR EVALUATION

Mode of Instruction:

_____ Individual _____ Small Group _____ Large Group

Method of Instruction:

_____ Lecture
_____ Discussion
_____ Questioning
_____ Guest Speaker

_____ Field Trip
_____ Case Study
_____ Other

Instructional Aids adequate?

Recommended changes:

Evaluation (test) Instrument adequate?

# Passed # Failed

Instructor Comments on Unit:

STUDENT EVALUATION INSTRUMENT

NAME____________________

1. Circle the five items which would be the best sources for obtaining cash for a business.

    Personal Savings
    Savings & Loan Co.
    Your congressman
    A recent college graduate
    A commercial bank
    A collection Agency
    Sale of Bonds
    Finance Company
    Supplier
    Sale of goods or services

2. Why do many small businesses fail when the record keeping shows a business is making a profit?

3. What is the first inflow of money into any business?

4. What are the most common uses of cash in a business?

5. What can a business do to control it's cash flow?

True/False

6. Cash imput into a business usually comes mostly from the sale of goods or services. T F

7. The primary use of cash in a business is to purchase supplies and inventory. T F

8. It is only natural that a business firm can become bankrupt with lots of cash on hand. T F

9. 'Tight credit' and high interest rates cannot cause a business firm cash flow problem. T F

10. Planning of cash in and out of a business is the one way to solve cash flow problems. T F

UNIT 7

Financing–

How to Obtain Money?

UNIT 7

HOW TO PACKAGE A LOAN PROPOSAL THAT PERSUADES A BANK TO LEND YOU MONEY

PART I. STUDENT OBJECTIVES

A. The student will be able to list and explain the values of an accurate loan proposal.

B. The student will be able to accurately complete a loan proposal.

PART II. TRANSITION OF UNITS

The previous unit concentrated on cash flow and cash flow projection, tools for business planning and credit procurement.

This unit deals with business records ie. cash flow and cash flow projections balance sheet, operating statements, and planning that a business uses to arrive at a clear, complete, written loan proposal.

The following unit deals with Human Relations, The Importance of Understanding How and Why People Behave as They Do.

PART III. LESSON

ATTENTION FOCUSER

The instructor will choose three class members to be owners of Arrow Company Baker Company and Cooper Company. The rest of the class will be bankers and should receive a loan decision worksheet (from Appendix A) on which they enter the amount of money that they have in their pocket plus $100.00 which represents deposits in their bank. Each company owner is then given 2 minutes to explain to the bankers why they should be granted a loan to their business. They use the money in their own pocket as collateral but must then establish how much additional capital they would need and tell what they would do with it.

At the end of the three presentations the bankers decide how much, if any, they will lend to each company and how much they will retain in the bank. Appoint someone to tabulate the results while the instructor reviews the presentation to point out the difficulty of convincing a banker without the benefit of hard facts in the form of a plan, budget or balance sheet and a profit and loss statement. Announce the results and ask the bankers to comment on why they decided as they did.

KEY QUESTION 1. Why should a student study how to properly present a loan proposal?

A. Putting together a good loan package is like many other packaging jobs - the quality depends on how you package it in addition to what you put into it. In this case, what you put into the package is information that will show a bank or other lending institution your soundness of character and ability, the soundness of a business and, prospectively, of a loan.

B. The information could be worth much less unless you package it correctly. You might shove some crucial figures into a corner where they won't be noticed . . .or distort an important fact . . . or, perhaps worst of all, simply forget a vital piece of information.

C. The importance of a clear, complete, written loan proposal is stressed by loan officers of banks. They (the officers of the banks) may seem helpful or sympathetic, but to do their job they must base their decisions on a cool appraisal of written facts and figures. Moreover, borrowers can't rely on the interview to clarify questions and confusions arising out of a poorly composed loan package. Several people usually must approve a load, and these questions and confusions will arise again as they read the package, but the borrower won't be there to clear them up.

SUGGESTED TEACHING STRATEGIES

Ask how many of the students feel confident enough to completely prepare their own loan proposal. Follow with a question of how many students understand the basic process for preparing a good loan package.

Using the information under Key Question 1, discuss why it is important that business operators understand the process.

Point out the fact that all business at one time or another needs to borrow money.

KEY QUESTION 2. How do you begin the loan package?

A. A step-by-step, section-by-section analysis is needed to create a reasonable and convincing proposal.

   A. Application
   B. Ownership
   C. Purpose and Use of Funds
   D. Repayment
   E. Market Analysis
   F. Personal Data
   G. Collateral
   H. Business History

B. Application. In the first section of the package, you simply specify how much you seek to borrow, for how long, how much you can repay each month (or quarter or year) and other relevant details (e.g., whether Small Business Administration loan application forms are being filed.) If there are specially important facts about the business (you have just purchased it from a partner, it has been operational for 16 months, etc.) mention them here.

C. Ownership. Identify the owners of the business, their titles if any,

a. Comparative and projected Financial Statements. Place your profit & Loss Statements for the preceding three years side by side along with your most current year-to-date statement, so that the reader can compare annual figures. A "comparative" statement might look like this:

	12/31/76 12 mos.	12/31/77 12 mos.	12/31/78 12 mos.
Sales			
Cost of Sales			
Gross Profit			
Operating Expenses			
Net Profit			

You must also provide, in the same "comparative" format, projected financial statement for the current year and three succeeding years. You can begin by "annualizing" items in your current statement (if the current statement is not dated 12/31). Divide 12 months by the number of months covered by the current statement. Then multiply each figure in the statement by the result. Say your statement is dated 8/31/78. Divide 12 by 8 to get 1.5. If expenses through the end of August amounted to $15,000, multiplying this figure by 1.5 would yield an "annualized" 1978 expense figure of $22,500.

*Note: For many firms, this method is unrealistic: Their business varies monthly or seasonally. A firm's total sales as of the end of August might represent far less (or more) than its total sales for the year. So you annualize current figures in light of the firm's past experience. For instance, if your sales at August 31 have been about half (rather than and the percentage of the business they own.

D. Purpose and Use of Funds. Describe concisely how you plan to use the funds, and state where the proceeds will go. In a simple case, the statement might look like this:

Equipment	$10,000.00
Leasehold improvements	12,000.00
Debt repayment	8,000.00
Total loan required	$30,000.00

Include explanations. For the example just given there should be notes specifying type and price of equipment to be purchased, the nature of planned leasehold improvements, and details about the debt to be repaid with loan proceeds. (Incidentally, when figuring your equipment or improvement needs, don't rely on your own calculations. They'll probably be too low. Instead, get written estimates from suppliers or contractors.)

E. Repayment. This, the longest and most important section of the package, should be worked out carefully with a bookkeeper, accountant, or Small Business Management Instructor. (Or have someone review). It brings together a great deal of past and projected information, all relevant to one simple question: Will the loan be repaid? Naturally, the most favorable presentation shows projected sales rising faster than projected expenses.

1. Key element of the Repayment section are:
    - a. Comparative and Projected Financial Statements.
    - b. Comparative and Projected Operating Expenses.
    - c. Profit & Loss and Cash Flow Projections.
    - d. Pro Forma Balance Sheet
    - e. Supporting Schedules
    - f. Footnotes.

fourths) of the annual total in past years, just double the eight-month sales total to annualize the figure for the current year. Past experience is also the key to projections for the three years to come. Consider perhaps the most important of them, sales projections. Either you believe sales will continue their historical pattern over the next three years or you don't. In the latter case, you must have good reasons for your opinion. Explain your reasons to the lender. If the sales projections you present are consistent with past sales data alongside them, you'll have to explain little to the lender. If there are significant deviations, spell out in detail the reasons you already have for believing the deviations will occur.

To project sales costs, divide current cost of sales by sales income to find the current cost of sales percentage. Then compare the result with similar percentages for the three preceding years. Chances are that differences will be minimal. If so, apply the current percentage to projected sales income for the current year and the three subsequent years to obtain the needed cost of sales projections. (if the percentages don't closely match, you will have to explain why, and then justify in some way why you believe the new percentage will apply to projected income figures.)

b. Comparative and Projected Operating Expenses. You'll also have to supply details about past and expected business expenses. Use the same "comparative" or side-by-side format for each of the three preceding years, and for the present year to date. Three more columns should project expenses for the three coming years.

In general, predicting expenses is not difficult. If you know what they were in the past and are likely to be for the current year- and you plan no drastic changes in operations - you can quickly come up with reasonable figures for the next three years. After allowing for the possible effects of inflation, try to keep projected expenses as close as possible to the figures for the latest full year.

Keep these points in mind about specific items in the expense statements:

* You can obtain interest tables for calculating what you will spend for loan repayment at your local library, bank, or savings and loan association.
* Projected depreciation probably won't be in line with the past record because you must take into account equipment or improvements you plan to pay out of loan proceeds.
* There is a fundamental distinction between fixed and and variable costs when you're making projections. This may seem obvious, but many people assume that all expenses automatically rise with sales, and thus paint a darker picture than they should. In manufacturing, for instance, costs of production are generally closely tied to sales but office expenses and costs of professional services usually are not. In retailing, advertising costs tend to rise as sales do, but payroll and rent don't rise or rise more slowly.

c. Profit & Loss and Cash Flow Projections. Once again, these projections must be for the first three years after the current one-monthly projections for the first year, quarterly projections for the second and third. How should the projection be broken down?

Here is the format used by the Small Business Administration.

PROJECTED PROFIT & LOSS

1. Total Sales
2. Cost of Sales
3. Gross Profit (line 1 minus line 2)
4. Operating Expenses
5. Salaries (other than owner)
6. Payroll Taxes
7. Rent
8. Untilities
9. Insurance
10. Professional Services
11. Taxes & licenses
12. Advertising
13. Business Supplies (forms, postage, etc.)
14. Office Supplies
15. Interest
16. Depreciation
17. Travel
18. Entertainment
19. Dues & subscriptions
20. Other:
21. Other:
22. Total Expenses (add line 5 through 21)
23. Profit before taxes (line 3 minus 22)

PROJECTED CASH FLOW

24. Income (cash received)
25. Cash Sales
26. Collection of Accounts Receivable
27. Other
28. Total Income (add lines 25, 26 & 27)
29. Disbursements (cash paid out)
30. Owners Draw
31. Loan Repayments (principal only)
32. Cost of Sales (line 2)
33. Total Expenses (minus)
34. Capital Expenditures
35. Reserve for Taxes
36. Other
37. Total Disbursements (add lines 30 through 36)
38. Cash Flow Monthly (line 28 minus 37)
39. Cash flow cumulative (line 38 plus line 39 of previous month)

These monthly and quarterly projections can be compiled with the figures contained in the financial and expense projections. Your task is to turn them into projected monthly or quarterly data. In some cases, you can assume that the monthly figure for an item will be 1/12th the projected annual figure. In other cases, past business experience about seasonal variations will guide you to the reasonable projection.

d. Pro Forma Balance Sheet. A pro forma balance sheet shows what your balance sheet will look like after the loan is disbursed. Basically, you add a "use of funds" statement to your current balance sheet. If you intend to use the funds for equipment, for example, the value of the equipment will show up on the asset side of the sheet and the amount owed the bank will appear as a liability.

Under the pro forma balance sheet, you might include two ratios that most lenders want to see. Each ratio should appear in present form (as calculated from the current balance sheet) and projected form (as calculated from the pro forma sheet). The ratios are:

Debt-to-worth ratio = Total Debt divided by Net Worth

Current ratio = Current Assets divided by Current Liabilities

The first ratio shows the relationship between debt and the owner's investment in the business. As a rule, if it rises to 5 or more - if 5 dollars of others people's money are in the business for every dollar the owner has in it - most lenders would feel uncomfortable. However, a sound debt-to-worth ratio varies with the kink of business. Its higher for retailers than for service businesses.

Bankers also may worry if the second ratio is less than one, which means that the business can't cover short-term debt out of current assets. Thus, the higher this second ratio, the better.

e. Supporting Schedules. Sometimes additional material must be included, perhaps the most common being a schedule showing elements of projected cost of sales.

f. Footnotes. Use these to explain your projections. What did you base your sales projections on? How did you calculate depreciation? Did you use any formulas to calculate receivables or expenses, and if so, what are they? In your footnotes, try to answer every question that might be asked.

Explain projections of sales, cost of sales, total operating expenses, collection of receivables, interest, salaries, payroll tax, principal repayments, depreciation, income tax, and capital expenditures. Also footnote any item that deviates significantly from past data. For instance, if your utility costs move from an actual cost of $380 for 1978 to a projected cost of $950 for 1979, no footnote is probably needed; but if the projected 1979 cost jumps to, say, $1500, you should explain.

If a certain document is relevant to footnoted information, put it among the Exhibits appended to the summary and refer the reader to it in the footnote.

E. Market Analysis: Try to answer these questions: What products or service do you offer? Who are your target customers? What is the size and location of your target customers? What is the size and location of your potential' total market, and what market share have you obtained and hope to obtain? What does the competitive situation look like?

How long and detailed to make your market analysis usually will depend on how well acquainted the lender is with the business and the nature of the loan and its repayment. If you have an established business that's well known to the bank or lending institution, and if your loan proposal contains no unusual features or surprises, the analysis can be short. If your business is new or the loan is unusually large or repayment is based on, say, annual projected sales growth of 20 percent or more, you'd better include an elaborate market study.

F. Personal Data. If the loan is sought for a small company, the lender will expect a resume and personal financial statement, with footnotes, from each owner. Don't be modest. Tell the truth, but avoid dwelling on failures and be sure to highlight successes. Lenders are impressed by self-confidence. Include information on insurance, especially "key man" insurance and life insurance. (Lenders should know if you carry enough life insurance to pay off creditors.)

G. Collateral. Summarize, and include a statement of, the assets that a lender can take as collateral for the loan.

H. Business History: When did the business start? Who started it? How much initial capitalization was needed? What is the basic philosophy behind the business? How has it grown, and what events have been most significant in this growth?

PRESENT ADDITIONAL EXHIBITS

It's often wise to present documentary evidence to back up the figures and estimates that are included in the main part of your loan application. Suppose you need funds to fulfill a major contract you've signed with a customer. A photo copy of the signed with a customer. A photo copy of the signed contract will convince the bank that the funds will be used for the stated purposes.

Other exhibits might consist of your lists of major customers and suppliers. The fact that you have established relationships with well-known, reputable firms makes your own operation more impressive. Actual market studies - or published reports of them - projecting future growth for your particular industry can be used effectively to support your own projections of growth.

NOT A MIRACLE WORKER

No matter how well it's prepared, a loan package won't work miracles. If a firm is losing money and has no reasonable prospects of pulling itself out of the red, no matter how much new capital is brought in, and a bank can't see how it will recover the amount of a loan, no glittering proposal can make it see otherwise. If a business is running a highly profitable operation with sound prospects for even greater profits it probably could get the money it wants even if the application isn't all it could be.

But a complete loan application can improve the case - enable you to borrow if you're considered a marginal risk, or get a larger loan on better terms than might otherwise be possible.

Packaging a loan proposal competently involves a lot of detail and work. You may have to call an accountant for help. You may have to spend many hours working on it. But the stakes are worth it. Capital is the lifeblood of most businesses, and almost anything you do to increase your supply of it (or insure that you can get if if you need it) is worth it) is worth the effort.

SUGGESTED TEACHING STRATEGIES

A packet of all forms needed for preparing a loan proposal should be supplied to each student. The forms may be used by class members to follow the discussion and to make notes that will be helpful in doing their own loan proposal.

An example of small business loan proposal complete with a depreciation schedule should be used in the class to illustrate how easy it is to transfer income, expenses and depreciation totals to a loan proposal from a good set of maintained record keeping books.

Spend a few minutes with each step in each section, in preparation of the loan proposal.

Point out that by using the step-by-step procedure outlined in the previous key questions and by reading and following directions, almost anyone can prepare their own loan proposal.

Even though some businesses may prefer to have an attorney or consultant complete their loan proposal this exercise should be encouraged. The student will learn more about a business and probably will have a more complete loan proposal with this understanding. The instructor should relate this instruction to his/her program. Using examples from a typical trade or service will be helpful to a student learning this needed skill of a business person.

PART IV. SUMMARY

A. The loan proposal preparation is an obligation of all business operators. Accurate and complete records, coupled with an understanding of preparing a loan proposal, will result in the best possible chance for obtaining a loan.

B. While an individual business may choose to have their loan proposal completed by an expert, that expert can only work with the figures made available by the businesses.

PART V. AT-THE-BUSINESS INSTRUCTION

The instructor should assist the student in completing a loan proposal work sheet. This worksheet can be used by the individual student when and if the particular student needs a loan. The various alternatives for obtaining a loan should be reviewed and discussed. Other alternatives than obtaining a loan should be discussed. (Perhaps a loan is really not necessary.) The possible chance that a loan not being granted should be discussed. (What other resources and choices are available to the business.)

PART VI. RESOURCES

Chalkboard, Chalk and Eraser
Overhead Projector
Handouts of Blank Loan Proposal Sample

Supply of Lined Paper and Pencils

PART VII. REFERENCES

1. Small Business Administration, the A B C 's of Borrowing, Management Aids for Small Manufactures, Revised April 1977. Marketers Aids No. 170.

2. Persons, Edgar et al., Going Into Business Modules: Curriculum, Module #2 Financing A Small Business. Division of Agricultural Education, University of Minnesota, St. Paul, 1977.
3. Chronicle Features by Arthur Hoppe, San Francisco. The Thrifty Ant and the Spendthrift Grasshopper.
4. The Professional Report, A tax and Management Service for Business Owners; February 1979, Vol. 8, No. 2. TPR Publishing Co., Inc. Scarsdale, New York.

LESSON PLAN

Unit ______________________

Teacher ______________________

Date ______________________

Week ______________________

(begun) (hoves)

Objectives:

A.

B.

C.

Activities:

Step 1:

Step 2:

Step 3:

Step 4:

Step 5:

Step 6:

Step 7:

Step 8:

Step 9:

Step 10:

INSTRUCTOR EVALUATION

Mode of Instruction:

_____ Individual _____ Small Group _____ Large Group

Method of Instruction:

_____ Lecture
_____ Discussion
_____ Questioning
_____ Guest Speaker

_____ Field Trip
_____ Case Study
_____ Other

Instructional Aids adequate?

Recommended changes:

Evaluation (test) Instrument adequate?

# Passed # Failed

Instructor Comments on Unit:

STUDENT EVALUATION INSTRUMENT

1. Circle the '4' most important items that lenders consider when deciding whether to make a loan.

   collections
   character
   competition
   capital
   champagne
   capacity
   corporations
   capitalist
   collateral
   convenience

2. How do you begin the loan package?

   ____

   ____

3. What is a Pro Forma Balance Sheet?

   ____

4. The loan proposal preparation is the obligation of accountants, C.P.A.'s, lawyers, bankers, owners (circle one)

5. What should (can) a business do if loans are not granted to a business?

   ____

   ____

True/False

6. Several people usually approve a bank loan T F
7. The quantity of information helps a loan proposal T F
8. The quality of information helps a loan proposal T F
9. Character traits of individuals are important to a banker T F
10. Management skills (experience) are considered by bankers T F
11. Banks are concerned with making lots of money for themselves? T F
12. Banks are in business to make money, as much as possible T F
13. Banks are more concerned with service to their customers than making money for themselves T F

UNIT 8

Human Relations in Business

UNIT 8

HUMAN BEHAVIOR - IN BUSINESS

PART I. OBJECTIVES:

A. The student will be able to make an assessment of certain human behaviors to promote better personal and business relationships.

B. The student will be able to identify types of communication information which are critical to the operation of a business.

C. The student will be able to use some human relation tools to better understand and cope with people in a business situation.

PART II. TRANSITION OF UNITS:

Most of the previous units have dealt with accounting, business language, and business management. Record keeping and controls are important to keep the business operating efficiently.

This unit points out the important role of effective human relations. The small business owner, whether dealing with customers, suppliers, employees, or creditors, is really in the people business. Success depends on how well you can get others to do what will satisfy their needs while adding to a businesses' profits.

PART III. LESSON:

ATTENTION FOCUSER

Write on the blackboard the following "GOLDEN RULE" - Treat others as you would like to be treated. The result will be; we will all have a better world to live in." Ask for student comments on this. Most students will find the rule acceptable with the instructor's encouragement.

After convincing the students of the validity of the above statement, the instructor should totally reverse his/her self and make the statement - of all golden rules, accepted behaviors, the statement "Treat others as you would like to be treated," is absolutely FALSE - WRONG - INCORRECT - NOT TRUE, in fact no-one should be treated like you would like to be treated. Rather: People should be treated like they want to be treated, not how you like to be treated. Again, ask for student comments.

KEY QUESTION 1. Is it important to study human behavior? Why?

A. Throughout this curriculum, we have focused on the concepts, techniques, tools, and procedures that the small business manager and employee needs to know to handle the problems he is certain to encounter.

Our approach has been an orientation one. After all, the one thing that all business problems have in common is that management and employees must make a choice among alternative courses of action (or in action) in order to arrive at a solution. This is true regardless of the type of business involved - whether it be a manufacturing, wholesaling, retailing, construction, or service enterprise.

B. In this unit we want to stimulate the student to consider the importance and significance of the elements of human behavior, both from a business prospective and from a personal point of view. Many businessmen never achieve real success in business because they fail to see the opportunities for understanding people - behavior. The businessman who wants to maintain a dynamic and progressive business should try to cultivate a sense of "people-mindedness."

C. A vital and yet often overlooked function of business is that of dealing with employees and the public. The small businessman often feels that since he has only a handful of people working for him; or that he has a highly needed product or service, and a type of formal arrangement to train, motivate, and compensate employees, a public relation program is largely unnecessary.

D. Our purpose in this unit is to point the way toward improving performance by presenting certain concepts and techniques that relate directly to the people management task. Our chief concern throughout the unit will be to provide the student with essential tools for anticipating and understanding people problems in a business situation.

SUGGESTED TEACHING STRATEGY

Write Key Question 1 on the blackboard. Cover points A through D (the instructors may wish to use as a handout of points A through D). Have students relate different bosses the students had and how they were treated. Have them tell the positive and negative of a particular boss or what they would like a boss to behave like. Discuss any comments about particular disagreeable customers or a particular nice customer. What did they like or dislike, etc.

KEY QUESTION 2: What types of information are (should be) exchanged between the business owner and his/her employees?

Communication is a two-way process through which the business-owner manages the employees of a business. It can be done in a formal meeting or through short face-to-face conversations. Written communications can be useful when specific numbers or technical data must be transferred, but the personal contact, including facial expressions, tone of voice, and gestures are best for complete understanding. The listener can ask questions to clarify information and can respond on the spot.

The types of information that a business owner should give employees might include:

1. Sales or production quotas for a day, week, month, or other time period.
2. Quality standards -- how the work will be done, what types of products will be sold, and what prices will be charged.
3. Hours to be worked, wages, fringe benefits, and promotion possibilities.
4. Future plans for the business, it's products, and/methods.
5. Thanks for a job well done, public recognition for service, acknowledgement of new ideas and encouragement for the future.
6. The business philosophy and how the business is to be operated.
7. Your evaluation of their efforts, with suggestions for self-improvement.

Listening is the other half of communications. The owner must listen for:

1. Problems that arise in the sales or production areas.
2. Customer complaints.
3. Employee complaints about wages, working conditions, or disputes with other employees.
4. Rumors that might affect employee morale or business.
5. Suggestions for improvements in operations, products, methods, or morals.
6. Human relations breakdowns that disrupt normal business operation. (Human relations involve the two-way communication between management and employees.) If hurt feelings due to lack of recognition, discrimination, or insincerity - whether real or imaged - are not detected and dealt with, the results can be disastrous in terms of work slow-downs,

employee turnover, or theft. The important thing to remember is that employees are human and entitled to concern and respect. Employee loyalty is one of the most important factors in the success of a business.

SUGGESTED TEACHING STRATEGY

Pass out Appendix A and have students complete by rating what employees feel are important on the job and then have students complete what management thinks is the most important to employees. After discussion with students reveal the actual results. Allow time for comments and further discussion.

Write Key Question 2 on the chalkboard. After presenting the material ask a student to discribe what it might be like in a work situation where there has been a breakdown in communications. You might point out the similarity of how a breakdown of communications in a marriage often results in divorce. Tell how communications are essential in setting and achieving goals.

KEY QUESTION 3: What human relations skills are essential in operating a successful business?

Most successful businesses start out as small operators that grow because of a good reputation or rapport that is built between the owner and his/her customers. This success may be based on some combination of feelings such as respect for competence of skills, appreciation for hard work and good service, or just liking the business owner as an individual. Liking in the community and participating in civic functions, attending church, supporting fund drives, helping with educational and youth programs, or just being a good neighbor and citizen will enhance the business owner's reputation and help in establishing good, friendly relations with potential customers.

A good reputation is one of the most important factors in attracting new customers, and good human relations are important in turning new customers into repeat business. As the business grows, however, it is often necessary to hire clerks or service people to represent the owner in dealing with customers. It's impossible to hire people who have the same attitudes and human relation's skills as the owner so it is important to provide training in the manner and attitudes with which customers will be treated. Some of the areas that should be discussed are:

1. Make the customer feel important: The customer is KING. Without the customer, there is no business, no profits, and no jobs. It is therefore, up to each employee to do everything possible to make each customer feel important. This often requires playing second fiddle to the customer in order to build his/her self-esteem or sense of worth. Even if you don't think the customer is right, you must still respect the customer as a human being and respect the customer's feelings.
2. Cooperation and Teamwork: A successful business requires that all employees work together to satisfy the needs of the customer. Often the rewards are not immediately apparent, but the important thing is to develop a loyalty to the business.
3. Generosity: A generous and unselfish spirit can be an important asset to a business. The employee who is generous with time, effort, compliments, suggestions, and good cheer can do much in creating good will for the business. The owner must set the proper tone by contributing time and money to worthy causes and investing in the development of employees.

4. Patience: This is the ability to take time to be polite to a customer even without the prospect of a big sale, or standing back and letting an employee learn even if they do make mistakes, or not flying off the handle when things don't work out quite the way you had hoped. Being a business owner and working with people on both sides of the sales counter can be terribly frustrating and calls for an extra measure of understanding.
5. Fact: Saying the right thing in the right way is often the key to achieving your goals with the cooperation rather than the antagonism of others. Learn to praise people in public and reprimand them in private. The real key though is honesty and openness in dealing with others and learning to teach them with the care and respect that you would expect if the positions were reversed.
6. Integrity: One of the most valuable parts of your reputation has to do with the sense of morality for which the business stands. Treat your employees honestly and let them know that you expect them to deal with your customers the same way. In addition, you must go out of your way to deal honestly with your suppliers, competitors, and other businesses in your community.
7. A willingness to grow: The growth of the business, whether in profits or size, requires a constant management of change. The owner, as well as the employees, must continue to grow personally and learn to adopt to the changing situations. This requires the business operator to be observant of change and he must learn how to capitalize on each new trend, fad or market shift.

SUGGESTED TEACHING STRATEGY

Use Appendix B, in transparency form, to provide the outline for discussion of Key Question 3.

KEY QUESTION 4. Why do customers buy (and why they don't)?

A. People buying things, like all the other things they do, depends less on logic and more on emotion and attitudes. There is a psychology to selling that we can define and utilize.

BUYING DEPENDS
LESS ON LOGIC
AND MORE ON
EMOTIONS AND ATTITUDES

B. In order to sell anything, the customer has to want the product more than he wants the money it costs to buy it. Wants in turn are expersions of biological needs and psychological desires. Those wants are turned into buying motives by the personality, attitudes, and feelings of the customer.

C. Some buying motives are hidden. They are suppressed or unconscious and may be the most important motives affecting a sale.

D. Customers build images of products and companies that they transfer to the qualities of the product.

E. Just as there is a psychology of why people buy things, there is one of why they don't. The major reasons they don't buy are interruptions or contradictions of their buying motives, negative attitudes on the part of the sales people or service personnel, bad impressions of the product or firm, and too much sales pressure.

F. If we were to make a single statement as to the best technique to use, we would say it is to make the customer feel important. Finally, we must satisfy the customer. And if you can truly build satisfaction for your customer, there is no limit to what you can sell. Why, if you can do that, you can even sell refrigerators to Eskimos!

SUGGESTED TEACHING STRATEGY:

Write Key Question 4 on the chalkboard. Ask students for examples of what they think are the reasons why customers buy and why they don't. Ask students why they buy at a particular store or call a specific service business, etc. This will lead into discussion of points A through F.

PART IV. SUMMARY

A. It is important to consider the element of human behavior, both from a business perspective and from a personal point of view.

B. The free flow of information is essential to effective employee-employer relations.

C. Human relations refers to the skills essential to getting along with others. The business owner must teach these skills to employees to ensure that customers are receiving the proper level of service.

D. Customers will buy more often if they are made to feel important and have their needs met.

E. Customers do not buy because of bad impressions of a business, caused mostly by poor attitudes by sales people and owners of a business.

F. The man or woman who manages a business successfully must have personal qualities which will help in working with customers, employees, and vendors.

Being able to determine what customers want and the ability to inspire and direct the work of employees are two personal qualities of value. Moreover, the manager should be willing to service his customers, employees, and the community.

PART V. ADDITIONAL AT HOME STUDY

By the time this unit is taught, the instructor should have a good list of films, books, or additional reading material on human behavior - human relations.

Review the present situations that most of your students will most likely be going into. Discuss possible ways an employee might help an employer by being an observant employee.

PART VI. RESOURCES:

Overhead projector	Handouts, Appendixes A
Chalkboard, chalk, and eraser	Transparencies: Appendixes A,B,C

PART VII. REFERENCES:

Small Business Administration - Administrative Management Course - Why Customers Buy (and Why They Don't) topic sixteen, page 26.

PART VIII. APPENDIXES

A. What is important to employees?

B. What human relation's skills are essential in operating a business?

INSTRUCTOR KEY

A nationwide poll showed the following responses.

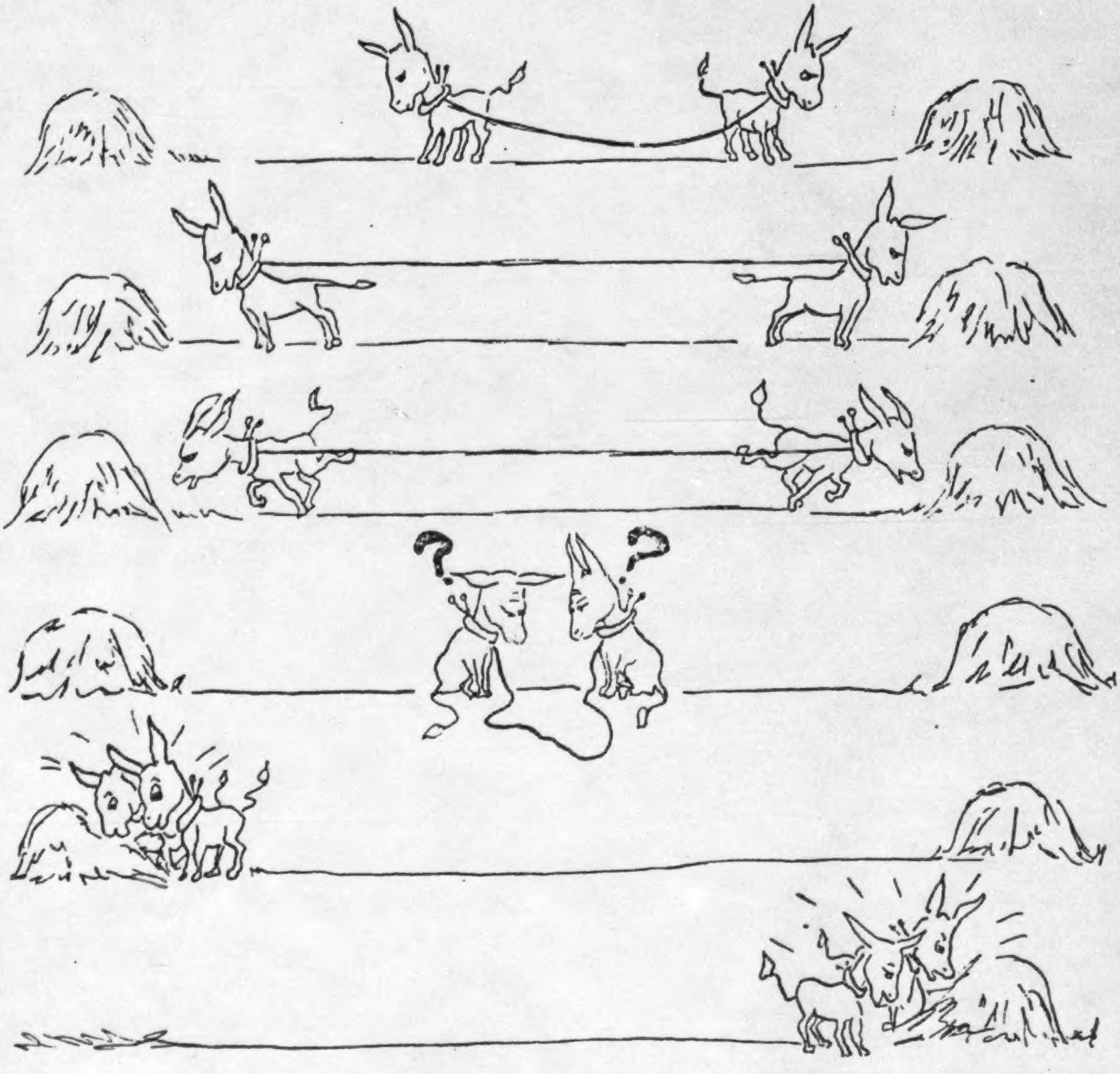
Ranking by Employees	What Employees Want	Ranking by Management
1	Credit for all work done	7
2	Interesting Work	3
3	Fair pay	1
4	Understanding and appreciation	5
5	Counsel on personal problems	8
6	Promotion on merit	4
7	Good physical working conditions	6
8	Job security	2

APPENDIX A
HANDOUT A

Nationwide poll showed the following responses.

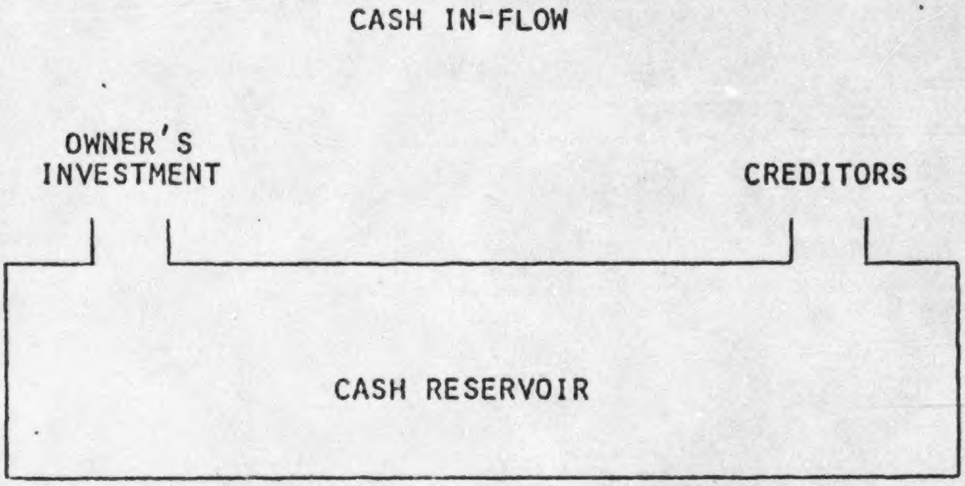
Ranking by Employees	What Employees Want	Ranking by Management
	Credit for all work done	
	Interesting work	
	Fair pay	
	Understanding and appreciation	
	Counsel on personal problems	
	Promotion on merit	
	Good physical working conditions	
	Job security	

MUTUAL OBJECTIVES



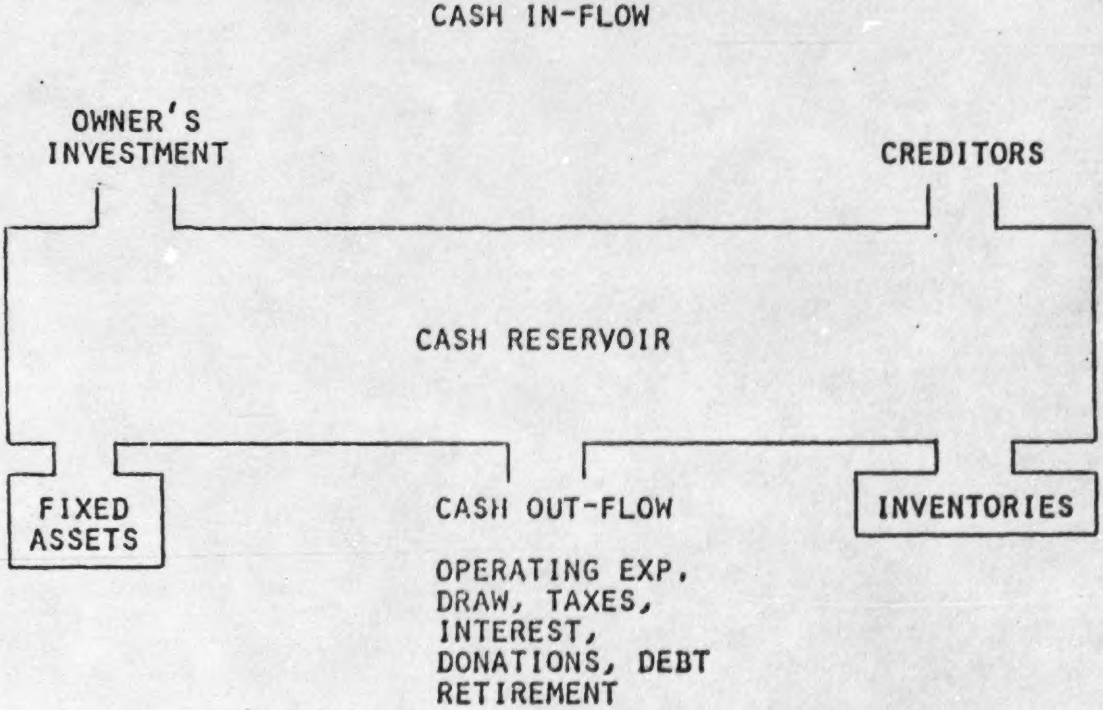
APPENDIX C

FLOW OF FUNDS THROUGH A BUSINESS


CASH IN-FLOW
OWNER'S INVESTMENT
CREDITORS
CASH RESERVOIR

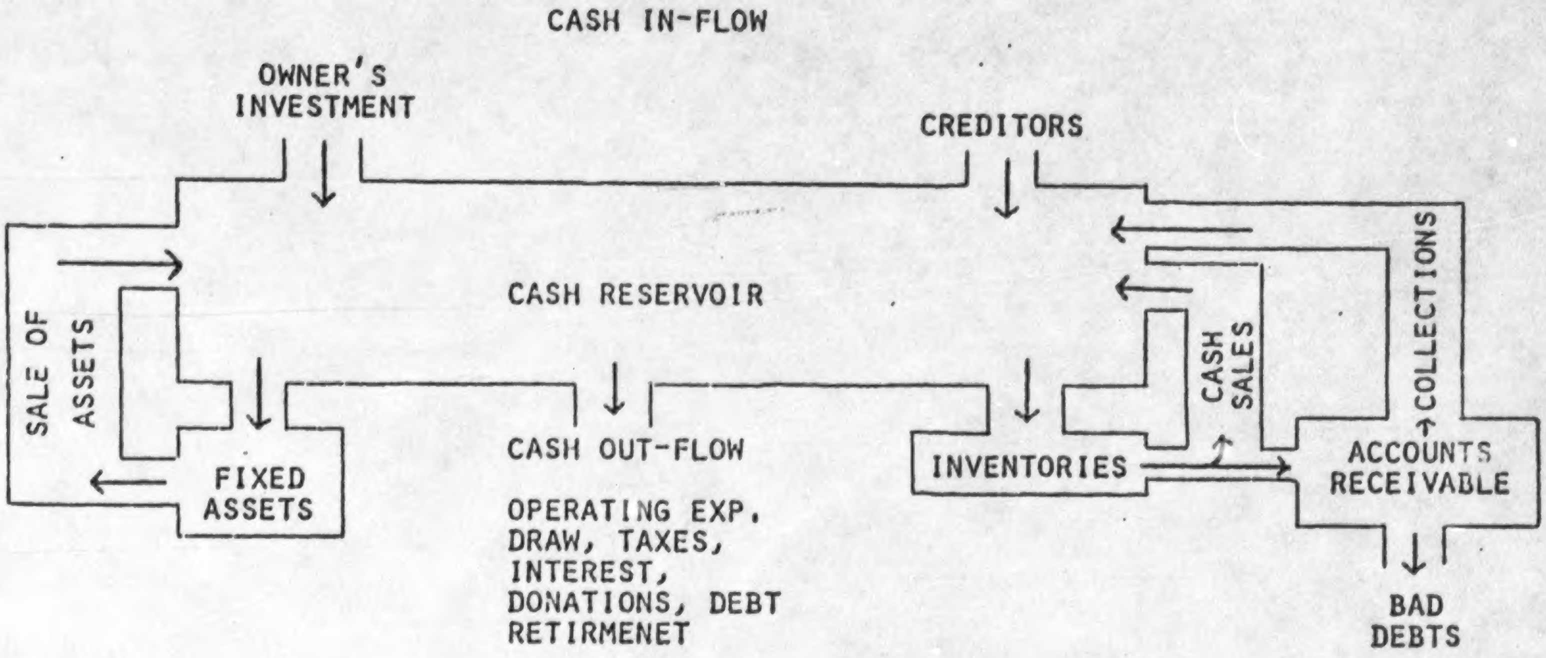
APPENDIX C1

FLOW OF FUNDS THROUGH A BUSINESS


CASH IN-FLOW
OWNER'S INVESTMENT
CREDITORS
CASH RESERVOIR
FIXED ASSETS
CASH OUT-FLOW
INVENTORIES
OPERATING EXP. DRAW, TAXES, INTEREST, DONATIONS, DEBT RETIREMENT

APPENDIX C2

FLOW OF FUNDS THROUGH A BUSINESS


CASH IN-FLOW
OWNER'S INVESTMENT
CREDITORS
SALE OF ASSETS
CASH RESERVOIR
CASH SALES
COLLECTIONS
FIXED ASSETS
CASH OUT-FLOW
INVENTORIES
ACCOUNTS RECEIVABLE
OPERATING EXP.
DRAW, TAXES,
INTEREST,
DONATIONS, DEBT
RETIRMENET
BAD DEBTS

APPENDIX D

QUARTERLY CASH BUDGET WORKSHEET

Name ____________________

	January	February	March
Estimated Receipts			
Cash Sales	$ 7,500	$13,000	$15,000
Received on Account	1,200	600	1,500
Total Cash Receipts			
Estimated Cash Payments			
Merchandise Payments	$14,000	$10,000	$ 7,200
Payroll	1,200	1,200	1,800
Drawing Account	800	600	800
Rent	--	--	300
Utilities	--	--	420
Insurance	400	--	--
Repairs & Maintenance	400	500	--
Advertising	540	300	--
Taxes	850	--	--
Total Cash Payments			
Estimated Excess Cash Receipts over Cash Payments			
Estimated Cash Balance at Start of Month			
Borrowing Needed			
Loan Repayment			
Interest Expense			
Estimated Cash Balance at End of Month			

OPTIONAL SOLUTION

Estimated Excess Cash Receipts over Cash Payments			
Estimated Cash Balance at Start of Month			
Borrowing Needed			
Loan Repayment			
Interest Expense			
Estimated Cash Balance at End of Month			

LESSON PLAN

Unit ____________________ Teacher ____________________

Date ____________________

Week ____________________

(begun) (hoves)

Objectives:

A.

B.

C.

Activities:

Step 1:

Step 2:

Step 3:

Step 4:

Step 5:

Step 6:

Step 7:

Step 8:

Step 9:

Step 10:

INSTRUCTOR EVALUATION

Mode of Instruction:

_____ Individual _____ Small Group _____ Large Group

Method of Instruction:

_____ Lecture
_____ Discussion
_____ Questioning
_____ Guest Speaker
_____ Field Trip
_____ Case Study
_____ Other

Instructional Aids adequate?

Recommended changes:

Evaluation (test) Instrument adequate?

Passed # Failed

Instructor Comments on Unit:

Student Evaluation Instrument

1. List 6 items that a business owner should give employees to improve morale-production.

______________ ______________ ______________

______________ ______________ ______________

2. List 4 items a business owner can listen for to improve communications.

____________________ ____________________

____________________ ____________________

3. List 5 areas of discussion to improve employer/employee relations.

_________________ _________________

_________________ _________________

____

4. Complete the following statement

"Buying Depends less on Logic and More on ____________&______________.

5. If we were to make a single statement as to the best technique to use with customers and employees, we would say it is to ____________________.

True/False

6. It is not important to consider the element of human behavior from a business perspective! T F

7. The exchange and free flow of information is essential between employers and employees T F

8. Human relations is a natural skill, not a learned skill T F

9. Customers will buy more if they are made to feel important T F

10. Customers do not like to be sold products or services T F

11. Customers like to buy items, rather than be sold items T F

12. One reason customers do not buy-because of negative attitudes on the part of other customers. T F

13. Customers buy things because their buying motives are interrupted. T F

14. Lack of recognition of employees whether real or imagined by a supervisor can have an effect on profits. T F

15. Rumors might affect employee morale or business T F

GLOSSARY

GLOSSARY OF FILMS & VIDEO TAPES FOR SUPPLEMENT AND POSSIBLE USE WITH CURRICULUM

UNIT I	P-9 The Habit of Winning
UNIT II	M-25 The Nut Business
	P-3 The Business Plan
UNIT III	J-38 Productivity and the Self Fulfilling Prophecy
	J-36 Communication - The Non Verbal Agenda
	P-8 The Power of Reinforcement
	P-7 The Power of Listening
UNIT IV	P-4 Heartbeat of Business
UNIT V	P-5 Where You are and Where You are Going
UNIT VI	P-2 It's Only Your Money
UNIT VII	M-25 Business Money - Where it Comes From and Where it Goes

SALESMANSHIP TRAINING FILMS

J-28 The Reason to Buy

J-29 The Challenge of Objections

P-9 The Close of the Sale

ADVERTISING TRAINING FILMS

P-6 The Advertising Question

J-22 The Advertising Question

P-7 Variations of a Theme

P-4 The Calendar Game